In the Supreme Court

OF THE

United States

Supreme Court, U. S.
FILED
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OCTOBER TERM, 1940

No. 576

CLARENCE DEVEUVE, doing business under the firm name and style of San Francisco Underwriters of San Francisco, THE TEXAS NATIONAL INSURANCE COMPANY OF DOVER, DELAWARE (a corporation), and THE SECURITY NATIONAL FIRE INSURANCE COMPANY OF GALVESTON, TEXAS (a corporation),

Petitioners and Appellees,

vs.

IDA LOUISE TARLETON and MARY ANN MCELLIGOTT,

Respondents and Appellants.

PETITION FOR WRIT OF CERTIORARI to the United States Circuit Court of Appeals for the Ninth Circuit, and BRIEF IN SUPPORT THEREOF.

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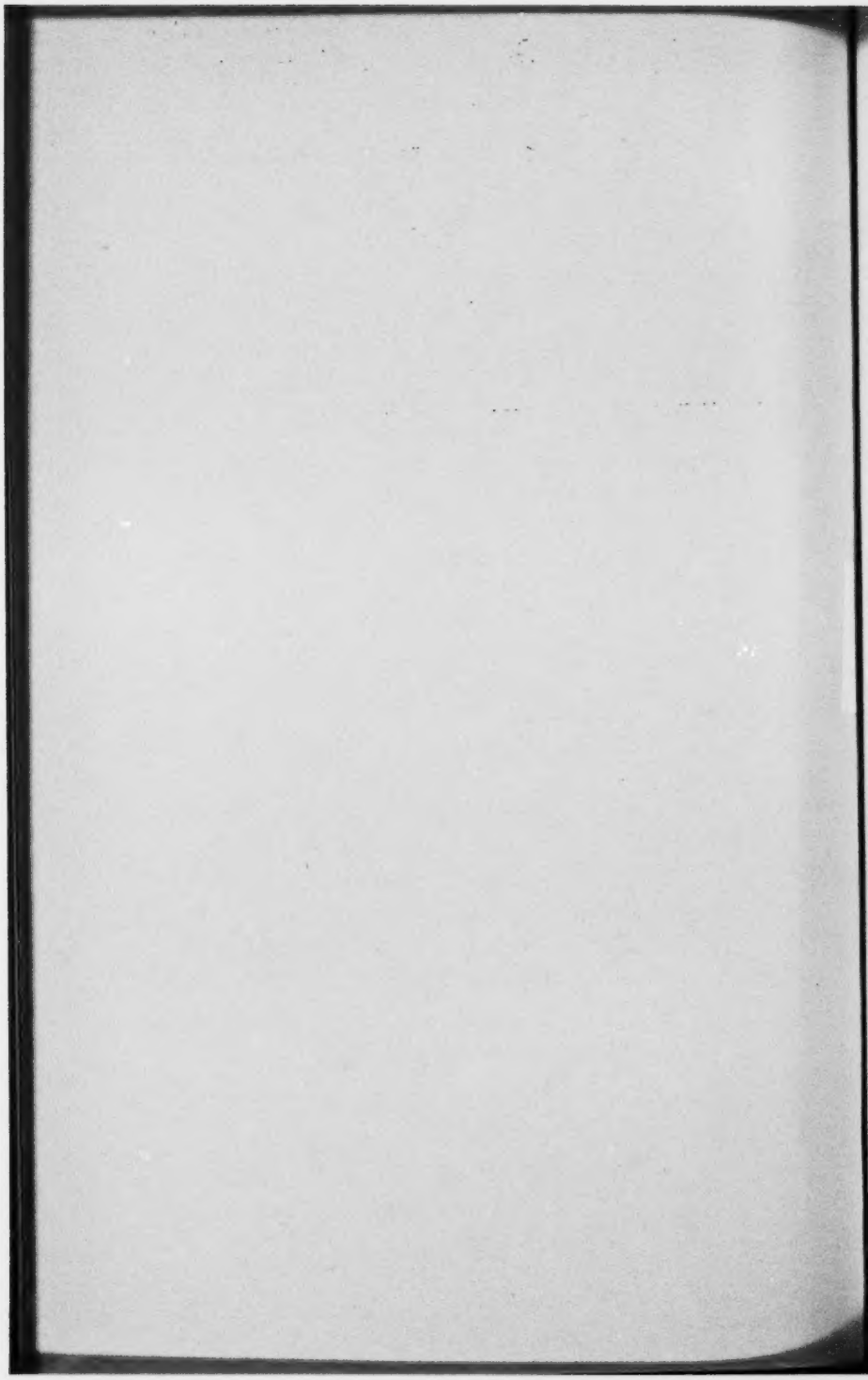

Subject Index

Page

Petition for Writ of Certiorari..... 1

Summary Statement of Matters Involved..... 2

A.

History of the case..... 2

B.

Facts concerning issuance of insurance policy sued upon.... 4

C.

Statement of the pleadings..... 7

D.

Question in trial court..... 8

Taking of appeal 9

E.

The principal questions involved on said appeal..... 9

Basis of Application for Writ of Certiorari..... 11

It is Respectfully Submitted That There Are Three Governing Considerations for Not Leaving Undisturbed the Judgment of the Circuit Court of Appeals for the Ninth Circuit 15

Reasons for Granting Petition for Writ of Certiorari to the Circuit Court of Appeals for the Ninth Circuit..... 15

Questions Presented 19

Brief in Support of Petition for Writ of Certiorari..... 21

I.

Opinions of the courts below..... 21

II.

Jurisdiction 22

Facts showing that the nature of the case and the rulings below were such as to bring the case within the jurisdictional limits relied upon..... 23

III.

Statement of the case..... 27

IV.

Specification of errors 27

Point A. The finding of the United States District Court for the Northern District of California, Northern Division

Page

thereof, are supported by the evidence and should not be set aside because they are not "clearly erroneous", and due credit should be given to the opportunity of the trial court to judge the credibility of witnesses..... 28

Point B 33

Point C. The decision of the United States Circuit Court of Appeals for the Ninth Circuit reversing the judgment of the trial court (U. S. District Court for Northern California, Northern Division thereof) is in conflict with the decisions of its own circuit, other United States Circuit Courts of Appeals and the Supreme Court of the United States on the same subject..... 34

Point D. The plaintiffs and appellants have not sustained the burden of proof required under California law and the judgment of the Circuit Court of Appeals for the Ninth Circuit reversing the trial court failed to interpret and failed to apply the rule of Cities Service Oil Co. v. Dunlap, 308 U. S. 208, and failed to follow the California law as to the presumptions and burdens of proof..... 40

Point E. The United States Circuit Court of Appeals did not interpret and did not apply the rule in Ferrar v. West Assurance Corporation, 30 Cal. App. 489, to the facts in the case at bar..... 65

Point F. What is the scope of review of the findings of fact and conclusions of law of the trial United States District Court by the United States Circuit Court of Appeals for the Ninth Circuit, pursuant to the provisions of Rule 52 of the Rules of Procedure for the United States Circuit Court adopted by the Supreme Court of the United States 72

The Background for Proper Review..... 77

Our History Indicates That the Right of Appeal Should Be Restricted 78

An Extension of the Scope of Review Is Not Desirable..... 78

Conclusion 80

Table of Authorities Cited

Cases

Pages

Anglo-California National Bank v. Lazard, 106 F. (2d) 693, C. C. A. 9th, 1939 ..... 16, 35, 37, 39, 76

Bradford Electric Light Co. v. Clapper, 284 U. S. 221, 76 L. ed. 254, 52 S. Ct. 118 22

Cities Service Oil Co. v. Dunlap, 308 U. S. 208, 60 Sup. Ct. 201, 84 L. Ed. 196 ..... 14, 18, 19, 26, 27, 81

Crowell v. Baker Oil Tools Inc., 99 F. (2d) 524, C. C. A. 9th, 1938 39

Erie v. Tompkins, 304 U. S. 64, 58 Sup. Ct. 817, 82 L. Ed. 1188 ..... 14, 18, 19, 26, 27, 69, 81

Equitable Life Insurance Society v. McElroy, 83 F. Rep. 631, 49 U. S. App. 548, 28 C. C. A. 365 32

Ferrar v. Western Assurance Corporation, 30 Cal. App. 489 ..... 14, 16, 17, 19, 26, 27, 65, 68, 69

First National Bank of Chicago v. United States, 102 F. (2d) 907 (C. C. A. 7th, 1939), certiorari denied, 307 U. S. 641 (1939), rehearing denied, 60 Sup. Ct. 69 (1939) 77

Fritch, J. Home, Inc. v. United States, 248 U. S. 458 (1919) 76

Guilford Construction Company v. Biggs, 102 F. (2d) 46.. 36

Helvering v. Johnson, 104 F. (2d) 140 (C. C. A. 8th, 1939) 77

Kooistra v. Rockford Insurance Company, ... Mich. ....., 81 N. W. 568 ..... 67, 68, 69

Laumann v. Springfield Fire Insurance Company, 184 Cal. App. 650 ..... 69, 70, 71

Lawrence v. Goodwill, 44 Cal. App. 440 42

Lee Hardware Co. v. United States, 25 F. (2d) 42 (C. C. A. 8th, 1928) 76

Luziar's Inc. v. Nee, 106 F. (2d) 130, C. C. A. 8th, 1939 ... 16, 38

Malloy v. New York Life Insurance Company, 103 F. (2d) 439 37

Pages

Manning v. Gagne, 108 F. (2d) 718, C. C. A. 1, 1939.....16, 37
McDaniel v. United States, 108 F. (2d) 450, C. C. A. 7th, 1939 .....16, 39
McKeever v. Fontenot, 104 F. (2d) 326, C. C. A. 5th, 1939 .....16, 38

Occidental Life Insurance Co. v. Thomas, 107 F. (2d) 876 .....16, 35, 37, 39, 53

Pennsylvania Railroad Co. v. S. Chamberlain, 228 U. S. 333 .....26, 81

Slaker v. O'Connor, 278 U. S. 188, 73 L. ed. 258, 49 S. Ct. 158 22
Stevenson v. Southern Insurance Office, 17 Cal. App. 280.. 68
Stonega Coke and Coal Company v. Price, 102 F. (2d) 411 36
Storley v. Armour & Company, 107 F. (2d) 499, C. C. A. 8th, 1939 .....16, 38
Sundt v. Turman Oil Company, F. (2d) 762, C. C. A. 5th, 1939 38

Union Central Life Insurance Company v. Pauloy, 8 Ind. App. 85, 35 N. E. Rep. 190..... 32
United States v. Appalachian Power Company, 107 F. (2d) 769 36

Wessel v. United States, 49 F. (2d) 137 (C. C. A. 8th, 1931) 76

Statutes and Codes

California Code of Civil Procedure:
Section 1869 .....26, 27, 40, 41
Section 1981 .....26, 27, 40, 41
Section 2061 (5) 26, 27, 41

28 U. S. C. A. 346, 347..... 22
2 U. S. C., Sec. 773..... 72
26 U. S. C. 641C (1934)..... 77

Act of May 22, 1938, amending 28 U. S. C. 288b..... 76

Rules

Pages

Rules of Procedure of the United States District Court:
Rule 43 32
Rule 52 .....13, 20, 27, 28, 36, 38, 53, 56, 60, 72, 74, 75, 76, 77
Rules 52 (a), (b)...9, 10, 11, 12, 14, 15, 17, 18, 24, 25, 26,33, 39
Rules of the Supreme Court, Rule 38..... 2

Proposed Rules of the Supreme Court:
Rule 59, Report of the Advisory Committee, 1937..... 74
Rule 65, preliminary draft, 1936.....73, 74
Rule 68, preliminary draft, 1936.....73, 74

Texts

Clarke & Stone, Review of Findings of Fact (1937), 484
Chi. U. L. Rev. 190.....73, 74

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No.

CLARENCE DEVEUVE, doing business under the firm name and style of San Francisco Underwriters of San Francisco, THE TEXAS NATIONAL INSURANCE COMPANY OF DOVER, DELAWARE (a corporation), and THE SECURITY NATIONAL FIRE INSURANCE COMPANY OF GALVESTON, TEXAS (a corporation),

Petitioners and Appellees,

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IDA LOUISE TARLETON and MARY ANN MCELLIGOTT,

Respondents and Appellants.

PETITION FOR WRIT OF CERTIORARI
to the United States Circuit Court of Appeals
for the Ninth Circuit.

To the Honorable Charles Evans Hughes, Chief Justice of the United States, and to the Associate Justices of the Supreme Court of the United States:

Your petitioners, the appellee, Texas National Fire Insurance Company of Dover, Deleware, a Delaware corporation, and appellee, Security National Fire Insurance Company of Galveston, Texas, a Texas corporation, both authorized to do business in the State of California, under the firm name of San Francisco Underwriters, respectfully pray for a writ of certiorari to the United States Circuit Court of Appeals for the Ninth Circuit to review a judgment entered by that Court on July 3, 1940 (113 F. (2d) 290), reversing the judgment of the United States District Court for the Northern District of California, Northern Division (unreported).

A petition for rehearing was filed on August 2, 1940, and within the time permitted by rule of the Court, and denied by memorandum order of the Court on September 11, 1940.

In conformity with Rule 38 of this Court a certified copy of the record, including the proceedings in the Ninth Circuit Court of Appeals, accompanies this petition.

SUMMARY STATEMENT OF MATTERS INVOLVED.

A.

HISTORY OF THE CASE.

The complaint was filed in the Superior Court of the State of California in and for the County of

Sacramento by respondent and appellant, Mary Ann McElligott, and respondent and appellant, Ida Louise Tarleton, both residents and citizens of the State of California, for the purpose of recovering from the appellee and petitioner, Texas National Insurance Company, of Dover, Delaware, a Delaware corporation, and appellee and petitioner, Security National Fire Insurance Company of Galveston, Texas, a Texas corporation, both authorized to do a fire insurance business in the State of California under the name "San Francisco Underwriters", to recover the sum of $5000 on California Standard form fire insurance policy with Standard form mortgage clause attached, issued in the name of San Francisco Underwriters on or about March 5, 1936, of which sum, $4000 covered the buildings located on the property described in the insurance policy situated about eight miles north of Sacramento, and payable in the event of loss to appellant and respondent, Ida Louise Tarleton, mortgagee, and $1000 covered the personal property, not covered by the mortgage, payable to Mary Ann McElligott, appellant and respondent, owner of the premises described in the insurance policy. Because of diversity of citizenship, the case was removed upon petition of the appellees and petitioners to the District Court of the United States, for Northern California, Northern Division thereof, at Sacramento.

B.

FACTS CONCERNING ISSUANCE OF INSURANCE POLICY SUED UPON.

Appellant and respondent, Mary Ann McElligott, owned the property described in the insurance policy and located about eight miles north of Sacramento, California. The property was mortgaged to Ida Louise Tarleton, appellant and respondent, for $4000. In August, 1935, appellant and respondent, Mary Ann McElligott, requested W. G. McGlone—a Sacramento agent for the Lumberman's Underwriting Alliance—to insure the buildings in the Lumbermen's Insurance Company for $4000 with loss payable to Ida Louise Tarleton, mortgagee, and personal property for $1000 with loss payable to Mary Ann McElligott. The policy was to run for three years at an agreed premium of $150—all of which was approved by Mary Ann McElligott prior to issuance of the policy (Record, page 97). Ida Louise Tarleton knew nothing about this or any other policy of insurance. (Record, page 169.) Mary Ann McElligott paid $20, when the policy was issued, and $20 about December 20th (Record, page 98) and McGlone returned the policy to the company for cancelation. Ida Louise Tarleton had no notice of this cancellation. (Record, page 106.)

McGlone made several attempts to secure other insurance in the Kansas City Fire & Marine Insurance Company and The Commerce Fire Insurance Company, and these were likewise canceled by McGlone without knowledge or consent of appellant and respondent Mrs. Tarleton and appellant and respondent

Mrs. McElligott. He then asked Hubbs, special agent for the Lumberman's Underwriters Alliance to secure insurance for $5000, $4000 on the buildings, loss payable to Ida Louise Tarleton, and $1000 on personal property, loss payable to Mary Ann McElligott. *Nothing was said about the amount of the premium.* Hubbs said he could not place it in his company but he would secure it elsewhere. No one knew what company it was to be placed in and no mention was made of any particular company. San Francisco Underwriters was unknown to McGlone, McElligott or Tarleton. A general insurance broker, J. D. Richards, of San Francisco, contacted the San Francisco Underwriters; they issued the policy for $5000—loss payable to Ida Louise Tarleton in the sum of $4000 and $1000 payable to Mary Ann McElligott—for three years—for $200 premium—an increase of $50 over the other premium.

Neither McGlone, Tarleton, nor McElligott ever agreed to pay a premium of $200 for this policy, either before or after issuance. The policy was sent to Ulvilla of the Lumberman's Underwriters Alliance who in turn sent it to McGlone in Sacramento. It was dated March 5, 1936, and remained in McGlone's possession until May 2, 1936, during which time he attempted to but could not contact Mrs. McElligott because he was told she was ill. (Record, pages 113, 129.) After Ulvilla sent the policy to McGlone, he dunned McGlone for the payment of the premium (Record, page 210) and on May 2, 1936, McGlone returned the policy to Ulvilla, accompanied by a letter

dated May 2, 1936 (Ex. A, Record, page 115), requesting that it be canceled because insured could not pay the premium. (Record, page 115.) Previously McGlone had requested the insurance company to cancel the policy flat, i. e., without liability for the payment of premium. (Record, page 144.)

The policy sued upon was never in possession of Mrs. McElligott (Record, page 187) or Mrs. Tarleton. (Record, page 167.) McGlone kept it in his possession from the time he received it, shortly after March 5th, to May 2, 1936 (Record, page 113) and during that time, he attempted to see Mrs. McElligott; went to her place of business several times but was told she was ill (Record, page 113) and he was unable to see her and did not at any time after March 5, 1936, demand payment of the premium from Mrs. McElligott (Record, page 113) or from Mrs. Tarleton. (Record, page 116.)

The outstanding fact to be considered as far as validity or existence of the policy is concerned, is that the existence of the policy was not known to Mrs. McElligott or Mrs. Tarleton. McGlone kept the policy in his possession and made no effort to contact Mrs. Tarleton although her address appeared after her name in the mortgage clause. He attempted to but could not contact Mrs. McElligott and when he could not do so, he returned the policy through the same channels through which it was received and was canceled flat by the insurance company upon request of McGlone.

C.

STATEMENT OF THE PLEADINGS.

The complaint is in the usual form of an action predicated on a policy of fire insurance with standard mortgagee clause attached thereto.

The appellees and the defendants answered jointly and denied that the policy and the mortgage clause had ever been in full force or effect and on information and belief denied substantially all of the allegations of the complaint and in addition thereto, set forth six special defenses in their answer.

First Defense (Record, page 50):

> Premium on the policy should be paid sixty days after issuance and if not so paid, the policy must be surrendered and canceled. The payment of premium was not made within 60 days from the date of issuance, the appellant surrendered policy for cancelation and the appellees canceled the same, prior to the destruction by fire of the property insured.

Second Defense (Record, page 52):

> McGlone and Richards were the agents and servants of McElligott and Tarleton acting within the scope of their employment, and as such surrendered the policy for cancelation to the appellees and the policy was canceled by appellees at the request of the insured prior to loss.

Third Defense (Record, page 53):

> McGlone and Richards, at the request of McElligott and Tarleton, advised defendants that plaintiffs rescinded and canceled the contract of

insurance and canceled the policy flat so as to relieve them from any liability for payment of premium.

FOURTH DEFENSE (Record, page 55):

The policy was canceled at the request of the insured.

FIFTH DEFENSE (Record, page 55):

The policy was void by reason of false misrepresentation and swearing contrary to its terms.

SIXTH DEFENSE (Record, page 57):

The premium on the policy was payable on demand, that demand was made and the premium was not paid, the policy was surrendered by McElligott and Tarleton to the insurance companies and canceled prior to loss.

D.

QUESTION IN TRIAL COURT.

(1) Was the policy ever in effect

(2) If policy was ever in effect, was it ever canceled in accordance with its provisions as to cancelation or in accordance with mutual agreement of the parties or in accordance with law?

The complaint was filed in the Superior Court of Sacramento County, February 17, 1937, removed to United States District Court at Sacramento, April 27, 1937, trial was held by the Court without a jury on December 13th and 14, 1938. A judgment was rendered against the plaintiffs and in favor of the insur-

ance companies on March 28, 1939. The trial Court found as a fact that the fire insurance policy sued upon was never delivered to or accepted by either of the plaintiffs or by anyone acting on their behalf and that the fire insurance policy was not in effect on the date of the loss, May 21, 1936.

TAKING OF APPEAL.

The appeal from said judgment was taken by the plaintiff Ida Louise Tarleton and the plaintiff, Mary Ann McElligott, to the Circuit Court of Appeals for the Ninth Circuit, which reversed the judgment of the trial Court and decided that the policy was in effect from the date of its issuance, March 5, 1936, and that on the date of the claimed fire loss that it had not been canceled pursuant to the provisions thereof respecting cancelation or pursuant to agreement of the parties or in accordance with law, and, therefore, both of the plaintiffs were entitled to recover under the terms of the policy.

E.

THE PRINCIPAL QUESTIONS INVOLVED ON SAID APPEAL WERE:

The interpretation, construction and application of Rule 52 (a) and (b) of Civil Procedure for the District Courts of the United States, as applied to the findings of fact and conclusions of law of the trial Court (United States District Court), whether or not

the findings of the trial Court were supported by the evidence and should not be set aside unless "clearly erroneous", due regard being given to the opportunity of the trial Court to judge of the credibility of the witnesses.

The Circuit Court of Appeals in its opinion (Record, page 263) 113 F. (2d) 290-4 (bottom thereof) states: "Questions before this Court are (1) whether the insurance policy was ever in effect; (2) if so, whether it was incumbent upon appellees, as required in the mortgage clause attached to and made a part of the policy, to have given Mrs. Tarleton, the mortgagee, notice before cancelation; (3) whether the action of McGlone, in returning to appellees the policy accompanied by the request to cancel it, sufficed to deprive Mrs. McElligott of any rights thereunder.

The Court, in its opinion, does not apply, does not interpret and does not make any reference whatever to Rule 52 Subdivisions (a) and (b) thereof, nor does it indicate in any manner, except inferentially from the language of its opinion, whether its decision reversing the trial Court was influenced by the provisions of Section (a) of Rule 52, which, as we have pointed out before, provides among other things, that the findings shall stand unless clearly erroneous, or whether they were guided in their judgment or decision reversing the trial Court by the provisions of Subdivision (b) which provides among other things that when findings of facts are made in actions tried by the Court without a jury, the question of the sufficiency of the evidence to support the findings may be

raised on appeal whether or not the party raising the question has made in the District Court an objection to such findings or has made a motion to amend them or a motion for judgment.

There is no question but that the proof conclusively showed that the policy sued upon did not, in fact, ever come into effect. The trial judge who saw the witnesses and heard the evidence so found. (See Findings, printed Record, pages 67 to 69, inclusive.)

BASIS OF APPLICATION FOR WRIT OF CERTIORARI.

The trial Court found as a fact that the policy of insurance sued upon was never delivered to or accepted by the plaintiff, Ida Louise Tarleton or by the plaintiff, Mary Ann McElligott, or by any one acting for or on behalf of them or either of them, and the policy therefore was not in effect at any time and particularly on May 21, 1936, the date upon which the fire loss occurred. (Record, pages 67-8.)

Rule 52 of the Rules of Procedure of the District Courts of the United States, Subdivision (a) provides among other things that in all actions tried upon the facts without a jury, findings of fact should not be set aside unless clearly erroneous and due regard shall be given to the opportunity of the trial Court to judge of the credibility of the witnesses. Subdivision (b) of the same rule provides that when findings of fact are made in actions tried by the Court without a jury, the question of the sufficiency of the evidence to support

the findings may thereafter be raised, whether or not the party raising the questions has made in the District Court an objection to such findings or has made a motion to amend them or a motion for a judgment.

The Circuit Court of Appeals for the Ninth Circuit reversed the judgment and set aside findings of fact and conclusions of law of the trial Court without interpreting and without applying Rule 52, Subdivisions (a) and (b) thereof, hereinabove referred to, with respect to the said findings of fact and conclusions of law, but on the other hand, undertook to analyze the evidence and to draw its own conclusions therefrom without any reference in its opinion to the interpretation or application of Rule 52, Subdivisions (a) or (b), stated in its opinion 113 F. (2d) 290, at bottom of page 294 (Record, page 263); the questions before the Court were:

1. Whether or not the policy was in effect.

2. If it was in effect, was it incumbent upon the insurance companies, in accordance with the provisions of the insurance policy and the standard mortgage clause attached, to notify Ida Louise Tarleton, the mortgagee, of cancelation in order to make the cancelation effective as to her.

3. Whether the act of McGlone, an insurance broker who procured the policy, in returning the policy to the insurance company stating that the policy was returned for cancelation because the insured was unable to meet the premium at that time, operated as a cancelation of the policy in so far as Mrs. McElligott is concerned.

It is respectfully submitted that none of these three questions were before the Circuit Court of Appeals. On the other hand, the only question before the Circuit Court of Appeals was whether or not in accordance with the provisions of Rule 52, hereinabove referred to, the findings of fact of the trial Court were clearly erroneous, due regard being given to the opportunity of the trial Court to judge of the credibility of the witnesses, and should be set aside or whether on the other hand, they were supported by the evidence and should stand.

This case presents clearly the important, unsettled and troublesome question as to the scope of review of the findings of the District Court of the United States (trial Court in this case) by the United States Circuit Court of Appeals for the Ninth Circuit (the Appellate Court in this case) pursuant to the provisions of the Rule 52 hereinabove referred to. The decision of the Circuit Court of Appeals for the Ninth Circuit emphasizes the great importance to the legal profession and to the Courts of the meaning, construction and interpretation of Rule 52, and demonstrates the need of an authoritative and elucidating decision by the United States Supreme Court as to the scope of review permitted or required by the Appellate Court of the findings of the trial Court, a question which has never been determined by the decisions of the Supreme Court of the United States.

The effect of a judgment of the Circuit Court of Appeals for the Ninth Circuit reversing the United States District Court is to undermine generally and

to disregard in its entirety the provisions of Rules 52(a) and 52(b) and to create a new rule of its own to the effect that the Appellate Court has a right to weigh the evidence and to draw its own inferences therefrom opposite from those of the trial Court even though the findings of the trial Court are supported by the evidence and are not clearly erroneous, due regard being given to the trial Court to judge of the credibility of the witnesses as shown by their conduct on the stand, the character of their evidence, their manner, relation to the parties, bias and prejudice, degree of intelligence, reasonableness or unreasonableness of their answers and the strength or weakness of their recollection.

There is also involved the important question of the application of the rule in *Erie v. Tompkins,* 304 U. S. 64, 58 Sup. Ct. 817, 82 L. Ed. 1188, inasmuch as the Circuit Court of Appeals for the Ninth Circuit has failed to interpret and to apply the rule to *Ferrar v. Western Assurance Corporation,* 30 Cal. App. 489, in so far as it affects the interest of Mary Ann McElligott, owner, under the policy and claimed beneficiary thereunder to the extent of $1000 insurance on personal property not covered by the mortgage.

There is also involved the important question of the application of the rule of *Cities Service Oil Co. v. Dunlap,* 308 U. S. 208, 60 Sup. Ct. 201, 84 L. Ed. 196, inasmuch as the Circuit Court of Appeals for the Ninth Circuit has failed to interpret and failed to apply the rule in so far as it applies to the State precedents of California on presumptions and burden of proof.

IT IS RESPECTFULLY SUBMITTED THAT THERE ARE THREE GOVERNING CONSIDERATIONS FOR NOT LEAVING UNDISTURBED THE JUDGMENT OF THE CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT.

I. The Supreme Court should intervene to quiet a conflict in decisions between the various United States Circuit Courts of Appeal with respect to the meaning, interpretation and construction of Rule 52 (a) and (b) of the Rules of Procedure for the District Courts of the United States, which it alone can compose;

II. To declare the law with respect to the scope of review under Rule 52 because the intrinsic importance of the issue calls for the most authoritative determination of the United States Supreme Court.

III. To correctly interpret and apply the decisions of the United States Supreme Court to the facts in the case at bar.

REASONS FOR GRANTING PETITION FOR WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT.

A.

The decision of the Circuit Court of Appeals for the Ninth Circuit reversing the decision of the United States District Court for the Northern District of California, Northern Division thereof, and setting aside the findings of fact and conclusions of law of the trial Court is in conflict with decisions of its own Court, of the Circuit Courts of Appeal of the United States for the various circuits hereinafter mentioned,

on the same matter, in the following cases hereinafter cited.

First Circuit:

Manning v. Gagne, 108 F. (2d) 718, C. C. A. 1, 1939.

Eighth Circuit:

Luziar's Inc. v. Nee, 106 F. (2d) 130, C. C. A. 8th, 1939;

Storley v. Armour & Company, 107 F. (2d) 499, C. C. A. 8th, 1939.

(The decisions of the Fifth and Seventh Circuits are equivocal and are in conflict with the decision in the case at bar.)

Fifth Circuit:

McKeever v. Fontenot, 104 F. (2d) 326, C. C. A. 5th, 1939;

Seventh Circuit:

McDaniel v. United States, 108 F. (2d) 450, C. C. A. 7th, 1939;

Ninth Circuit:

Anglo-California National Bank v. Lazard, 106 F. (2d) 693;

Occidental Life Insurance Company v. Thomas, 107 F. (2d) 876.

B.

The decision of the Circuit Court of Appeals for the Ninth Circuit overruling, failing to interpret and failing to apply *Ferrar v. Western Assurance Corporation,* 30 Cal. App. 489, which holds that a broker

who acted as agent for the insured for the purpose of securing insurance had no authority to cancel insurance, is a decision on an important question of local law in a way probably in conflict with applicable local decisions. The United States Circuit Court of Appeals for the Ninth Circuit has herein announced a rule potentially governing a substantial number of other cases which is in conflict with the rule announced in the authoritative state Court decision of *Ferrar v. Western Assurance Corporation,* supra.

C.

The decision of the Circuit Court of Appeals for the Ninth Circuit reversing the judgment of the trial United States District Court setting aside the findings of fact and the conclusions of law of the trial Court, by holding that the policy of insurance sued upon was in full force and effect on March 5, 1936, to and including the date of the loss on May 21, 1936, and that it had never been canceled as to the owner, Mary Ann McElligott, or as to the mortgagee, Ida Louise Tarleton, involves an important question of federal law, to-wit: the scope of review permitted to or required by a United States Appellate Court under the provisions of Rule 52, subdivisions (a) and (b) thereof of the Rules of Procedure for the District Court which has not been but should be settled by this Court.

D.

The Circuit Court of Appeals in this decision has failed to apply and has plainly misinterpreted the

provisions of Rule 52, subdivisions (a) and (b) thereof, of the Rules of Procedure of the District Court of the United States adopted by the Supreme Court of the United States and the elucidation of its own rules, is an indispensable aspect of the function of the Supreme Court of the United States.

E.

The United States Circuit Court of Appeals for the Ninth Circuit has plainly failed to interpret and has failed to apply the law set down in the following cases:

Erie v. Tompkins, 304 U. S. 64, 82 L. Ed. 1188, 58 Sup. Ct. 817;

Cities Service Oil Co. v. Dunlap (1939), 308 U. S. 208, 84 L. Ed. 196, 60 Sup. Ct. 201.

The elucidation of these decisions as applied to the facts in the case at bar is a matter of public importance.

F.

The great importance to the legal profession and to the Courts of the meaning, construction and interpretation of the Rule 52 involved in the case at bar, the need of an authoritative and an elucidating decision by the United States Supreme Court as to the scope of review permitted or required by the United States Circuit Court of Appeals for the Ninth Circuit of the findings of fact and conclusions of law made by the United States trial Courts.

QUESTIONS PRESENTED.

Upon the facts there is presented a situation wherein a fire insurance company, without a formal written application for a policy of insurance by either owner or mortgagee, issues a policy by virtue of which it offers to insure for $5000, for 3 years, for $200 premium, property described in the policy, with loss payable to mortgagee in the sum of $4000 and the owner the sum of $1000 and gives it to a broker who in turn mails it to another broker, representing the owner, who keeps it in his possession from shortly after date, March 5, 1936, to May 2, 1936, and during which time he does not contact the mortgagee or the owner and advise them of its receipt or the amount of premium and upon request, after demand is made for payment of the premium, returns the policy through the same channels through which it was received, together with a letter stating that it is returned for cancelation because insured cannot pay the premium on account of illness. (Record, page 115.)

QUERY 1. Did the United States Circuit Court of Appeals, 9th Circuit, follow the doctrine of the *Cities Service Oil Co. v. Dunlap,* 308 U. S. 208, in interpreting and applying the California law as to presumptions and burden of proof?

QUERY 2. Did the United States Circuit Court of Appeals, 9th Circuit, follow the doctrine of *Erie v. Tompkins,* 304 U. S. 64, in interpreting and applying the decision in *Ferrar v. Western Assurance Corporation,* 30 Cal. App. 489?

QUERY 3. What is the scope of review by an Appellate Court of the findings of fact of the trial Court

under Rule 52 of the Rules of Procedure for the United States District Court?

QUERY 4. Was there an application for an insurance policy and was it accepted?

QUERY 5. Was there an offer to insure and was it accepted?

QUERY 6. Was there a delivery of the policy?

QUERY 7. If the policy was in effect, was it canceled in accordance with the terms or by mutual consent of the parties?

Wherefore your petitioners respectfully pray that a writ of certiorari be issued under the seal of this Court directed to the United States Circuit Court of Appeals for the Ninth Circuit commanding that Court to certify and send to this Court on a day to be designated a full and complete transcript of the record and all proceedings of said Circuit Court of Appeals had in these causes, to the end that the same may be reviewed and determined by this Court; that the judgment of said Circuit Court of Appeals be reversed by the Court, and for such further relief as may seem just and proper.

Dated, Sacramento, California,
November 8, 1940.

Respectfully submitted,
WALLACE SHEPARD,
Counsel for Petitioners.

FRANK L. MURPHY,
Of Counsel.

In the Supreme Court
OF THE
United States

OCTOBER TERM, 1940

No.

CLARENCE DEVEUVE, doing business under the firm name and style of San Francisco Underwriters of San Francisco, THE TEXAS NATIONAL INSURANCE COMPANY OF DOVER, DELAWARE (a corporation), and THE SECURITY NATIONAL FIRE INSURANCE COMPANY OF GALVESTON, TEXAS (a corporation),

Petitioners and Appellees,

vs.

IDA LOUISE TARLETON and MARY ANN MCELLIGOTT,

Respondents and Appellants.

BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI.

I.

OPINIONS OF THE COURTS BELOW.

The opinion of the Circuit Court of Appeals appears in 113 F. (2d) 240, and in the record herein

at R. 256-282 inclusive; the District Court minute orders for the entry of a judgment for the defendants appear in the record at page 61 (as number 1501-R) and the findings of fact and conclusions of law appear at pages 61 to 69 inclusive and the judgment of the District Court appears at pages 70 and 71 of the record.

II.

JURISDICTION.

A.

The date of the judgment to be reviewed is July 3, 1940.

Petition for rehearing was filed on August 2, 1940, within the time allowed by rule of Court and was denied by the Circuit Court of Appeals for the Ninth Circuit on September 11, 1940. (Record, page 282.)

B.

The statutory provision which is believed to sustain the jurisdiction of this Court is Judicial Code, 239 and 240, 28 U. S. C. A. 346, 347.

C.

The cases believed to sustain said jurisdiction are as follows:

Bradford Electric Light Co. v. Clapper, 284 U. S. 221, 76 L. ed. 254, 52 S. Ct. 118;

Slaker v. O'Connor, 278 U. S. 188, 73 L. ed. 258, 49 S. Ct. 158.

D.

FACTS SHOWING THAT THE NATURE OF THE CASE AND THE RULINGS BELOW WERE SUCH AS TO BRING THE CASE WITHIN THE JURISDICTIONAL LIMITS RELIED UPON.

a.

The trial Court found as a fact that the policy was not in effect at the time of the loss—delivery not made and premium not paid. (Record, pages 67, 68, Findings of Fact, par. XIII.)

This finding is supported by the evidence.

1. After the policy was issued by the San Francisco underwriters, and sent to McGlone, the Sacramento broker, through whom the policy was secured for the insured, he did not contact Mrs. McElligott for the purpose of telling her that it had been issued. He went out to see her several times but she was sick or wasn't around. (Record, page 118.)

2. After issuance of the policy on March 5, 1936, and prior to May 2, 1936 (the date upon which the policy was returned to the company accompanied by a letter stating that it was to be canceled because the insured could not pay the premium—Exhibit A introduced in evidence at Record, page 115), he did not make demand upon Mrs. McElligott for the payment of this premium of $200. (Record, page 113.)

3. Although he went several times to make a demand for premium, but couldn't see her. (Record, page 113.)

4. He did not notify Mrs. Tarleton, even try to find her address, where she lived or where she could be contacted. (Record, pages 116-129.)

5. Mr. Ulvilla, from whom he received the policy, kept dunning McGlone for the payment of the premium. (Record, page 210.) On May 2, 1936, McGlone returned the policy of insurance to the company accompanied by a letter stating that the insured could not pay the premium so he returned it to them for cancellation. (Letter dated May 2, 1936, introduced in evidence, Record, page 115.)

b.

When there is no payment on a premium and no delivery of the policy, a contract of insurance cannot arise.

The findings of fact and conclusions of law of the trial Court should not be set aside "unless clearly erroneous"—due regard being given to the opportunity of the trial Court to judge of the credibility of witnesses. (Rule 52 of Rules of Procedure of the District Court of the United States adopted by the United States Supreme Court, subdivisions (a) and (b) thereof.) "Since findings were supported by the evidence, they should stand and the decision of the Circuit Court of Appeals of the Ninth Circuit, reversing the United States District Court was error.

c.

The United States Circuit Court of Appeals for the Ninth Circuit held that the following questions were before the Court:

1. Whether the insurance policy was ever in effect;

2. If so, whether it was incumbent upon appellees as required in the mortgage clause attached to and

made a part of the policy, to have given Mrs. Tarleton, mortgagee, 10 days notice before canceling;

3. Whether the action of McGlone in returning to appellees the policy, accompanied by a request to cancel it, sufficed to deprive Mrs. McElligott of any rights thereunder.

It is submitted that under Rule 52, subdivisions (a) and (b), supra, the only question before the Court was whether findings were supported by the evidence and should stand or were "clearly erroneous" due regard being given to the opportunity of the trial Court to determine the credibility of witnesses, and should be set aside.

The decision of the Circuit Court of Appeals for the Ninth Circuit reversing the United States District Court (trial Court) raises the question as to the scope of review permitted or required by the United States Appellate Court pursuant to Rule 52 of the Rules of Civil Procedure for the District Courts of the United States. It is submitted that Rule 52 is not unambiguous; that the decisions construing Rule 52 do not follow any definite trend. The elucidation of its own rules is an indispensable aspect to the United States Supreme Court. There is a definite need for an authoritative and elucidating decision of the Supreme Court of the United States interpreting Rule 52 which is of public importance to the Courts as well as to the legal profession.

d.

The United States Circuit Court of Appeals for the Ninth Circuit did not follow the rule laid down

in *Cities Service Oil Company v. Dunlap,* 308 U. S. 208, in applying and interpreting the California law as to the presumptions and burden of proof. California Code of Civil Procedure, Sections 1869, 1981, 2061(5).

e.

The United States Circuit Court of Appeals for the Ninth Circuit did not follow the rule of *Erie v. Tompkins,* 304 U. S. 64, in that it failed to apply and to interpret the decision of the California case of *Ferrar v. Western Assurance Corporation,* 30 Cal. App. 489, to the facts in the case at bar.

f.

The cases believed to sustain said jurisdiction are as follows:

Erie v. Tompkins, 304 U. S. 64, 58 Sup. Ct. 817, 82 L. Ed. 1188;

Cities Service Oil Co. v. Dunlap, 308 U. S. 208, 60 Sup. Ct. 201, 84 L. Ed. 196;

Pennsylvania Railroad Co. v. S. Chamberlain, 228 U. S. 333-9.

Rules of Court relied upon believed to sustain jurisdiction:

Rule 52, subdivisions (a) and (b) of the Rules of Procedure of the District Courts adopted by the Supreme Court of the United States.

California statutes relied upon believed to sustain jurisdiction:

California Code of Civil Procedure, Sections 1869, 1981, 2061 (5).

III.

STATEMENT OF THE CASE.

This has already been stated in the preceding petition under paragraph B, pages 4 to 6, which is hereby adopted and made a part of this brief.

IV.

SPECIFICATION OF ERRORS.

The Court erred in holding as follows:

1. In reversing the judgment of the trial Court by setting aside the findings of fact and conclusions of law in the absence of any showing that they were "clearly erroneous".

2. In failing to interpret and in failing to apply the provisions of Rule 52 of the Rules of Civil Procedure adopted for the District Courts of the United States by the Supreme Court of the United States.

3. In failing to interpret and failing to apply the rule in *Erie v. Tompkins,* 304 U. S. 64, as applied to the rule in *Ferrar v. Western Assurance Corporation,* 30 Cal. App. 489.

4. In failing to interpret and failing to apply the rule in *Cities Service Oil Co. v. Dunlap,* 308 U. S. 208, as applied to presumptions and burden of proof in accordance with California Code of Civil Procedure, Sections 1869, 1981, 2061 (5) and interpretations and construction thereof in compliance with the laws of the State of California.

5. In deciding an important question of federal law in a way which is in conflict with the decisions of the United States Supreme Court, the decisions of other United States Circuit Courts of Appeal and the decisions of its own Court or Circuit (U. S. Circuit Court of Appeals, 9th Circuit) on the same subject.

POINT A.

THE FINDING OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA, NORTHERN DIVISION THEREOF, ARE SUPPORTED BY THE EVIDENCE AND SHOULD NOT BE SET ASIDE BECAUSE THEY ARE NOT "CLEARLY ERRONEOUS", AND DUE CREDIT SHOULD BE GIVEN TO THE OPPORTUNITY OF THE TRIAL COURT TO JUDGE THE CREDIBILITY OF WITNESSES.

Rule 52 provides as follows:

"(a) EFFECT. In all actions tried upon the facts without a jury, the court shall find the facts specially and state separately its conclusions of law thereon and direct the entry of the appropriate judgment; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court.

(b) AMENDMENT. Upon motion of a party made not later than 10 days after entry of judg-

ment the court may amend its findings or make additional findings and may amend the judgment accordingly. The motion may be made with a motion for a new trial pursuant to Rule 59. When findings of fact are made in actions tried by the court without a jury, the question of the sufficiency of the evidence to support the findings may thereafter be raised whether or not the party raising the question has made in the district court an objection to such findings or has made a motion to amend them or a motion for judgment."

The trial Court found as a fact that the fire insurance policy sued upon was not in effect at the date of the claimed fire loss. It also found that the policy had not been delivered to or accepted by appellants or their agents—the premium had not been paid—and that the policy was in the possession of the defendant insurance companies at the time of the claimed loss on May 21, 1936—having been returned to them for cancellation on or about May 2, 1936, because the insured, Mary Ann McElligott, could not pay the premium on the policy. (See Findings, par. 13, pages 67 and 68.) That said fire insurance policy was received by the defendants on May 4, 1936, and the policy was cancelled flat as requested.

After the policy was sent out of the San Francisco Underwriters' office in San Francisco, to Mr. Ulvilla, it remained in possession of W. D. McGlone, the insurance broker in Sacramento, who acted for McElligott in securing the policy, until May 2, 1936. The policy had never been in possession of Mrs.

McElligott (Record, page 118) nor had it ever been in the possession of Mrs. Tarleton, the mortgagee. (Record, page 167.) We particularly direct the Court's attention to the testimony of Mr. McGlone on page 118 of the record. He was asked this question:

> "Q. After the policy was issued by the San Francisco Underwriters, did you contact Mrs. McElligott for the purpose of telling her that it had been issued?
>
> A. I went out to see her several times but she was sick or wasn't around."

No demand had been made upon her for the payment of the premium prior to the time that the policy had been returned to the defendant insurance companies on May 2, 1936 (Record, page 113):

> "Q. Did you after the issuance of this policy on March 5, 1936, and prior to May 2, 1936, ever make a demand upon Mrs. McElligott for the payment of this premium of $200?
>
> A. I went out to see her to make a demand but I couldn't see her."

While on page 115, he makes the same answer.

> "Q. You say, Mr. McGlone, that you didn't have a conversation with Mrs. McElligott about her inability to pay the premium by reason of sickness in her family.
>
> A. Yes, sir."

He didn't contact Mrs. Tarleton and ask her to pay the premium (Record, page 116):

> "Q. You never contacted Mrs. Tarleton and asked her to pay the premium, did you?
>
> A. No, sir."

and on page 129, Record:

"Q. Did you notify Mrs. Tarleton?
A. No, sir.
Q. Try to find her address?
A. No, sir.
Q. Where she lived?
A. No, sir.
Q. Where she could be contacted?
A. No, sir."

After the policy was mailed to McGlone, Mr. Ulvilla demanded payment of the premium and sent a bill for the premium with the policy (Record, page 210):

"Q. And then after this was mailed to Mr. McGlone, did you demand payment of the premium and send a bill for the premium for the policy?

A. Yes, we did, we dunned Mr. McGlone for the premium upon the request of the company."

On May 2, 1936, McGlone sent a letter to the defendant insurance companies introduced in evidence as Exhibit A at Record, page 115, addressed to Mr. Ulvilla at the Lumberman's Underwriting Alliance stating "I am returning the above captioned policy for cancellation. Due to sickness in the family, the insured cannot meet the premium at this time. I am Sincerely Yours, W. G. McGlone." It was in response to the dunning of Mr. Ulvilla as indicated by the questions and answers given in the Record, page 210, that Mr. McGlone on May 2, 1936, wrote the letter to the company returning the policy.

Between March 5, 1936, the date of the issuance of the policy, and May 2, 1936, the date upon which it

was returned, Mr. McGlone asked the insurance company to cancel the policy flat (Record, page 144):

> "Q. In the meanwhile, you asked the company to cancel the policy flat.
>
> A. Previous to that letter, yes. (Referring to the letter, Exhibit A, introduced in evidence at page 115 of the record in which he states that the policy is being returned for cancellation because the insured cannot pay the premium at this time.)"

The defendant insurance companies acted upon the request of Mr. McGlone to cancel the insurance policy flat because the insured could not pay the premium and so advised him that the policy had been returned to them about the first part of May, 1936, cancelled flat and marked "Not taken", when he attempted to make claim under the policy. (Record, page 177.)

It is respectfully submitted that under the circumstances there is only one possible conclusion that can be drawn from the evidence and that is that the policy, although issued, had never been in fact delivered to either Mrs. McElligott, the owner of the property insured, or Mrs. Tarleton, the mortgagee, and under the circumstances, the contract of insurance did not arise.

It has been held that: "There has been no payment of the premium and no delivery of the policy. There is a strong presumption that there is no contract and no intention to contract except by payment of premium and delivery of the policy." *Equitable Life Insurance Society v. McElroy,* 83 F. Rep. 631, 49 U. S. App. 548, 28 C. C. A. 365; *Union Central Life*

Insurance Company v. Pauloy, 8 Ind. App. 85, 35 N. E. Rep. 190.

It is respectfully submitted that the findings are not only supported by the evidence but on the other hand, they are not "clearly erroneous" and therefore they should not be set aside.

POINT B.

The Circuit Court of Appeals for the Ninth Circuit did not decide that the findings were "clearly erroneous". The Court did not make any mention of Rule 52, subdivisions (a) and (b), but on the contrary held that the following questions were before the Court to-wit:

1. Whether the policy was in effect.
2. Whether it was ever cancelled as to appellant and respondent, Tarleton.
3. Whether it was ever cancelled as to appellant and respondent, McElligott.

It is respectfully submitted that none of these questions were before the Court unless they first determined that the findings were "clearly erroneous", after giving due regard to the opportunity of the trial court to judge of the credibility of the witnesses. Then, and only then, did they have a right to examine the evidence and draw conclusions opposite to those drawn by the trial Court.

We have demonstrated under Point A, above, that those findings are supported by the evidence. We

refer to them here for further particulars and it is respectfully submitted that no reasonable man could draw any conclusion other than the one drawn by the trial Court, to-wit: that the policy was not in effect and neither appellant and respondent McElligott nor appellant and respondent Tarleton acquired any rights thereunder.

POINT C.

THE DECISION OF THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT REVERSING THE JUDGMENT OF THE TRIAL COURT (U. S. DISTRICT COURT FOR NORTHERN CALIFORNIA, NORTHERN DIVISION THEREOF) IS IN CONFLICT WITH THE DECISIONS OF ITS OWN CIRCUIT, OTHER UNITED STATES CIRCUIT COURTS OF APPEAL AND THE SUPREME COURT OF THE UNITED STATES ON THE SAME SUBJECT.

The United States Circuit Court of Appeals by reversing the judgment of the United States District Court for Northern California, Northern Division thereof and setting aside the findings of fact and conclusions of law of the trial Court to which we have referred in Point A above, and from the same facts from which the trial Court deduced that the policy had never been in effect because it had never been accepted, had never been delivered, the premium had not been paid and that it was returned to the company for "flat" cancellation prior to the date of the loss and was in fact cancelled "flat" by the company, and arriving at an opposite conclusion that the policy was in effect at the time of the loss, had never been cancelled as to the mortgagee, Ida Louise Tarleton, in

accordance with the terms of the policy or by mutual consent and that further it had not been cancelled as to appellant and respondent, Mary Ann McElligott, either in accordance with the terms of the policy or by mutual consent or agreement between the parties and in further holding that McGlone, under the circumstances, had no authority to return the policy for cancellation, exceeded its jurisdiction because the United States Circuit Court of Appeals for the Ninth Circuit has no such power as it has undertaken to exercise in arriving at this decision, and weighing the evidence. In doing so, the United States Circuit Court of Appeals for the Ninth Circuit has attempted to and has in fact weighed the evidence, a power which, according to its own decisions, the Court does not possess.

Anglo-California National Bank v. Lazard, 106 F. (2d) 693.

It was therein held:

"That the weight to be given the evidence was for the trial Court and not for this Court."

Occidental Life Insurance Co. v. Thomas, 107 F. (2d) 876.

Held:

"It was for the trial court to determine whether the weight of the evidence was for the appellant or the appellee or whether the evidence gave equal support to each of two inconsistent inferences within the rule announced in Pennsylvania Railroad Co. v. Chamberlain, 228 U. S. 333 at page 339."

The Court further laid down the rule that:

"Questions as to the weight of evidence are not to be decided by us."

The decision of the United States Circuit Court of Appeals for the Ninth Circuit in the case at bar is therefore in conflict with the decisions of its own Circuit as shown by the holdings of the two cases of the United States Circuit Court of Appeals for the Ninth Circuit. The decision is also in conflict with the decision of the other United States Circuit Courts of Appeals on the same subjects.

I. The decisions of the Fourth Circuit have three times held that Rule 52 "is but the formulation of a rule long recognized and applied by Courts of Equity".

Guilford Construction Company v. Biggs, 102 F. (2d) 46;

Stonega Coke and Coal Company v. Price, 102 F. (2d) 411;

United States v. Appalachian Power Company, 107 F. (2d) 769.

Under the old equity practice, the findings of the trial Court were not binding upon the Circuit Courts of Appeal. The Fourth Circuit indicates that Rule 52 of the new Rules of Procedure for United States Districts Courts is "but the formulation of a rule long recognized and applied by Courts in Equity", and they, in effect, hold that the findings of the trial Court are not binding upon the Circuit Courts of Appeal. In other words, the United States Circuit Court of

Appeals of the Fourth Circuit holds that it has a right to weigh the evidence. It is pointed out above that the *Circuit Court of Appeals for the Ninth Circuit has twice held,*

Anglo-California National Bank v. Lazard, 106 F. (2d) 693;

Occidental Life Insurance Co. v. Thomas, 107 F. (2d) 876,

that questions as to the weight of evidence are not before the Court.

The above decisions of the Ninth Circuit are at variance with those of the Fourth Circuit. The decision of the United States Circuit Court of Appeals for the Ninth Circuit in the case at bar in effect holds that findings of the trial Court (U. S. District Court) are not binding upon the United States Circuit Court of Appeals for the Ninth Circuit and is therefore at variance with the decision of its own Court as indicated by the two cases cited supra.

II. The First Circuit seems to have given Rule 52 a similar interpretation to the Fourth Circuit in a case not decided under the new rule. (*Malloy v. New York Life Insurance Company,* 103 F. (2d) 439.) (The case was reversed on other grounds.) But in the same circuit, in the case of *Manning v. Gagne,* 108 F. (2d) 718, C. C. A. 1st 1939, the Court held: "The question is not 'was there substantial evidence to warrant the findings different from those made—but only whether they are clearly erroneous'." In this respect the First Circuit seems to agree with the

Fourth Circuit as to the binding effect of the findings of the United States District Court.

III. In the Eighth Circuit, one decision while not directly applying Rule 52, identifies the rule with the former rule in law cases—that there is no reversal unless findings of the trial Court were unsupported by the evidence.

Luzier's Inc. v. Nee, 106 F. (2d) 130 (C. C. A. 8th 1939).

In the same circuit (Circuit Court of Appeals of the Eighth Circuit) in another case, *Storley v. Armour & Co.,* 107 F. (2d) 499, the Court holds:

"it is not the function of this Court to retry this case and to pass upon questions of fact, the determination of which depends upon the credibility of witnesses and the weight of evidence or to substitute its judgment for that of the trier of facts which had reached permissible conclusions."

IV. The decisions of the Fifth and the Seventh Circuits are equivocal.

(a) FIFTH CIRCUIT:

McKeever v. Fontenot, 104 F. (2d) 326.

The appellants asked for a review of the evidence upon which the findings were based.

Held: They are not entitled to a review if the evidence supports the findings.

Sundt v. Turman Oil Company, 107 F. (2d) 762, C. C. A. 5th, 1939.

Held: Findings will not be disturbed on appeal if they are supported by the evidence.

(b) SEVENTH CIRCUIT:

McDaniel v. United States, 108 F. (2d) 450, C. C. A. 7th, 1939.

Held: Where the evidence is conflicting, the trial findings are persuasive, presumptively correct, but not conclusive, but should not be set aside unless clearly erroneous.

V. The decisions in the Fifth and Seventh Circuits in the cases cited above are at variance with the decisions of the Ninth Circuit.

Judge Haney of the Ninth Circuit, one of the judges who sat in the case at bar, in a concurring opinion, in the case of *Occidental Life Insurance Co. v. Thomas,* 107 F. (2d) 876, stated "That questions as to weight of evidence are not to be decided by us." And findings are "clearly erroneous" if no reasonable man could logically draw such conclusions from the evidence. While this seems an accurate statement of the former rule as to cases in law, an earlier concurring opinion of Judge Haney seems to regard Rule 52 (a) as different than the law rule (*Anglo-California National Bank v. Lazard,* 106 F. (2d) 693, C. C. A. 9th, 1939), while in an earlier case decided by Judge Haney to-wit:

Crowell v. Baker Oil Tools Inc., 99 F. (2d) 524, page 577, C. C. A. 9th, 1938,

he held, "Although appellant's testimony supports his contention, Mellin's testimony is contrary". In view of the conflict, we believe that the trial Court made no "serious important mistake" and that its findings were not "clearly erroneous". (Citing Rule 52, subdivision (a).)

It is submitted that the above cases demonstrate a definite conflict of decisions between the various Circuit Courts themselves as well as the Ninth Circuit on the same subject in the case at bar and also a definite conflict and variance with its own decisions of the same Circuit on the same subject.

POINT D.

THE PLAINTIFFS AND APPELLANTS HAVE NOT SUSTAINED THE BURDEN OF PROOF REQUIRED UNDER CALIFORNIA LAW AND THE JUDGMENT OF THE CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT REVERSING THE TRIAL COURT FAILED TO INTERPRET AND FAILED TO APPLY THE RULE OF CITIES SERVICE OIL CO. v. DUNLAP, 308 U. S. 208 AND FAILED TO FOLLOW THE CALIFORNIA LAW AS TO THE PRESUMPTIONS AND BURDENS OF PROOF.

California Code of Civil Procedure, Section 1869, provides:

> "AFFIRMATIVE ONLY TO BE PROVED. Each party must prove his own affirmative allegations. Evidence need not be given in support of a negative allegation, except when such negative allegation is an essential part of the statement of the right or title on which the cause of action or defense is founded, nor even in such case when the allegation is a denial of the existence of a document, the custody of which belongs to the opposite party."

California Code of Civil Procedure, Section 1981, provides:

> "EVIDENCE TO BE PRODUCED BY WHOM. The party holding the affirmative of the issue must produce the evidence to prove it; therefore, the

burden of proof lies on the party who would be defeated if no evidence were given on either side."

California Code of Civil Procedure, Section 2061 (5), provides:

"5. That in civil cases the affirmative of the issue must be proved, and when the evidence is contradictory the decision must be made according to the preponderance of evidence; that in criminal cases guilt must be established beyond reasonable doubt;"

Under California Code of Civil Procedure Section 1869, each party must prove his own affirmative allegations. It was therefore incumbent upon the plaintiff to introduce evidence to prove that the policy was in effect at the date of the loss claimed.

Under California Code of Civil Procedure, Section 1981, the party holding the affirmative of the issue, must produce the evidence to prove it and the burden of proof lies upon the party who would be defeated if no evidence be given on either side.

Under the provisions of C. C. P. 2061 (5), in civil cases, the affirmative of the issue must be proved and when the evidence is contradictory, the decision must be made according to the preponderance of the evidence:

Preponderance of the evidence has been construed by the California Courts to mean "such evidence as when weighed with that opposed to it has more convincing force and from which it results that the greater probability is in favor of the party upon whom the burden rests".

See

Lawrence v. Goodwill, 44 Cal. App. 440.

As applied to the facts in the case at bar, it is apparent that the duty was upon the plaintiff to establish the fact of the validity and the existence of the policy by such evidence as when considered with that opposed to it, has more convicing force. It is respectfully submitted that the plaintiffs have not sustained the burden of proof as to the existence of the policy for the reasons hereinafter set forth.

In support of their contention, the plaintiffs, appellants and respondents, introduced the following evidence tending to prove that the fire insurance policy sued upon was in force and effect at the date of the fire loss.

a. The policy of the San Francisco Underwriters with mortgage clause attached, in favor of Ida Louise Tarleton.

b. A letter dated May 22, 1936, written by an agent of the San Francisco Underwriters, Clarence deVeuve, agent of San Francisco Underwriters, addressed to W. G. McGlone, Ochsner Building, Sacramento, California, in which he advises Mr. McGlone the policy sued upon was returned to the office about the 1st of May, canceled flat, "not taken". This evidence coincides with the testimony of McGlone on the stand that between March 5, 1936, the date of issuance of the policy and May 2, 1936, the date upon which it was returned, he requested that the policy be canceled flat. (Record, page 144.)

c. Letter dated May 4, 1936, written on the stationery of the San Francisco Underwriters addressed to J. D. Richards (Record, page 138), which in substance points out that the insured has a right to cancel the policy if she wishes but that if the policy was in effect between March 5, 1936, and May 2, 1936, and a loss occurred, the insured would look to them for payment and requesting Richard to send check for $30 in payment of the premium.

It is respectfully submitted that had a loss occurred between March 5, 1936, the date of the policy and May 2, 1936, the date on which it was returned, nothing is more certain than that Mrs. McElligott and Mrs. Tarleton would claim the policy and the benefits thereunder without even paying the premium. In the event of a loss between March 5, 1936, the date of the policy, and May 2, 1936, the date of the return, the facts might be exactly identical with the case at bar as far as the delivery of the policy is concerned, and in so far as these defendants and appellees are concerned, the difficulty of proving that a valid policy did not exist would be insurmountable. In view of the fact that a fire loss did not occur during this period of time, but after the policy was returned to the insurers through the same channels through which it was received unaccompanied by any offer to pay or agreement to pay any premium, the facts assume different views in so far as proof of existence or non-existence of a valid policy of fire insurance is concerned.

In arriving at its findings of fact that the policy of insurance sued upon was not in force and effect on the date of the fire loss the Court had before it the evidence or testimony of Mr. McGlone, the broker through whom the policy was secured for the benefit of Mrs. McElligott and Mrs. Tarleton as well as the letter of the San Francisco Underwriters to J. D. Richards. It was the duty of the trial Court to construe the letter, to make its own deductions or inferences from the testimony. On the one hand, we have the testimony of Mr. McGlone who states that during the time that he had the policy in his possession, he attempted to but could not see Mrs. McElligott to deliver the policy or to secure the payment of premium. (Record, pages 113-8.) The same was true with respect to Mrs. Tarleton except he made no effort in that regard although her name and address appeared upon the mortgage clause attached to the insurance policy. (Record, page 129.) Those facts took place prior to May 2, 1936, the date upon which McGlone wrote the letter entitled Exhibit A and introduced in evidence at Record, page 115, stating that the insured could not pay the premium so he was returning the policy for cancelation. But the office of the San Francisco Underwriters in San Francisco, is 100 miles away from the office of Mr. McGlone in Sacramento and San Francisco Underwriters had nothing before it from which to determine what in fact Mr. McGlone had done with respect to attempting to deliver the policy to Mrs. Tarleton or to Mrs. McElligott. There are two possible conclusions from the evidence that the San Francisco Underwriters might have arrived

at: That the policy had been delivered to Mrs. McElligott or Mrs. Tarleton or their agents, in which event the policy would be in existence from March 5, 1936, to and including May 2, 1936, and if such was the fact, then a premium would have been earned, and the policy would be canceled at the request of the insured. On the other hand, if the policy had not in fact been delivered to Mrs. McElligott or Mrs. Tarleton, and if Mr. McGlone had attempted to contact them but failed to do so for any reason or failed to secure a promise on the part of either of them for the payment of the premium within the period during which he had the policy in his possession, then it is obvious that there has not in fact been a delivery of the policy and there would be no liability whatever for the payment of premium, and that we submit is the fact in this case. The trial Court had before it the testimony of Mr. McGlone on the stand that he attempted to but could not see Mrs. McElligott, he made no effort whatever to see Mrs. Tarleton, he was dunned for the premium by Ulvilla from whom he received the policy. He returned it to the companies for cancellation having previously requested that the policy be canceled flat, that is, without liability for the payment of a premium. And after considering that evidence, the trial Court found as a fact the policy was not delivered. The trial Court was within its province in weighing this testimony. Inferences and deductions from the evidence which the trial Court drew are those which a reasonable man would draw. The findings are supported by the evidence, "not clearly erroneous" and the Circuit Court of Appeals has no right to set them aside.

The Circuit Court in its opinion refers to this letter at some length. (Record, page 261.) On page 262 they make the following statement: "Approximately a week after the receipt of this communication (referring to the letter of May 4, 1936, hereinabove referred to) McGlone demanded of Mrs. McElligott payment of the $30, without informing her that he had returned the policy for cancellation."

This statement, we submit, contradicts the record. We direct the Court's attention again to the record, page 144, to the testimony of W. V. McGlone, on re-cross examination:

"Q. This last letter here, dated May 4, 1936, addressed to Mr. Richards, to which you have been interrogated, did Mr. Richards send that to you?

A. No.

Q. Where did you get the letter?

A. Mr. Hubbs sent it to me from the Lumberman's Underwriting Alliance—I think Mr. Hubbs.

Q. What did you do when you received it?

A. I didn't do anything.

Q. Did you try to collect it?

A. No, I was waiting for Mr. Hubbs to come in.

Q. In the meanwhile, you asked the company to cancel the policy flat?

A. Previous to that letter, yes.

Q. You didn't call this to Mrs. Tarleton's attention——

A. No, sir.

Q. ——this letter, this demand for payment of premium? And you didn't call it to Mrs. McElligott's attention?

A. No, sir."

Mrs. McElligott's testimony, on the other hand (Record, page 195), is as follows:

"Q. Did Mr. McGlone ever make a demand upon you for the payment of the premium of $30.00 after May 2, 1936, and before May 21, 1936, the time of the fire?

A. Yes."

We respectfully submit that the testimony of Mr. McGlone contradicts that of Mrs. McElligott. The credibility of the witnesses and the weight of their testimony were matters for the trial Court. The trial Court had a right to believe the testimony of McGlone and hold that no demand had ever been made on Mrs. McElligott or Mrs. Tarleton for the premium of $30, and it is submitted that this is exactly what the trial Court did. (Record, pages 222 and 223.) For the convenience of the Court we quote as follows (Record, page 222):

"The Court. If they presented it for $200.00 and didn't receive any * * *"

(Record, page 223):

" 'Cancelled flat' means no earned premium.

The Court. Well, there is no doubt about that.

Mr. Meredith. Well then, that is the point I am making, on May 22, the day after the fire, they said the policy was cancelled flat.

The Court. Yes.

The Court. I am still correct in my deduction, am I not?

Mr. Meredith. You are.

The Court. If not, I will stand corrected, that is all I can say."

It is obvious from the statement of the Court, as well as counsel for Ida Louise Tarleton, appellant-respondent and plaintiff in the case, that they all agreed that it made little difference whether demand was made for $200 or an earned premium of $30, or for any other sum because, as long as that demand was not acceded to and the premium was not paid it did not change the ultimate facts of non-payment. The Court, of course, having in view all the other facts and circumstances in the case and particularly the letter of May 2, 1936, in which McGlone stated that the policy was being returned for cancellation because the insured could not earn the premium and considering testimony (Record, page 144) that between March 5, 1936 and May 22, 1936, he asked that the policy be "cancelled flat", and that the insurance companies cancel the policy flat pursuant of that request as stated in their letter to him of May 22, 1936. The Court had a right to hold as it did that the policy never did come into effect and was not in effect on the date of the loss.

It is respectfully submitted that all these matters were things to be considered by the trial Court. None of them were within the province of the Circuit Court of Appeals, particularly since Mrs. Tarleton stated (Record, page 206) no demand was ever made upon her for the payment of an earned premium of $30. And Mr. McGlone testified, not only once but several times, that he didn't see Mrs. McElligott at any time between the date of the policy, March 5, 1936, and May 2, 1936, the date upon which he returned the policy although he went out to see her several times but could

not do so on account of sickness (Record, page 113), and he didn't demand an earned premium of $30 from Mrs. McElligott. (Record, page 144.)

As a result, the statement of the Circuit Court of Appeals appearing in the opinion that McGlone demanded of Mrs. McElligott the payment of $30 while not informing her that he had returned the policy for cancellation is without foundation in fact unless we disregard entirely the testimony of Mr. McGlone and assume as absolutely true the testimony of Mrs. McElligott and this cannot be done by United States Circuit Court of the Ninth Circuit because due credit must be given to the opportunity of the trial Court to judge of the credibility of the witnesses.

It is respectfully submitted, whether or not the policy was in effect, is a question of fact to be determined by the trial Court. It was obviously written in San Francisco, a distance of some 100 miles from Sacramento, by a person entirely unfamiliar with the facts in the case. There is nothing to indicate that the person writing the letter had any information as to what McGlone did or attempted to do with the policy after he received it, to-wit: that he made no effort whatever to deliver the policy to Mrs. Tarleton, collect the premium from her or to contact her, but on the other hand, having made several efforts between the date on which he received the policy after March 5, 1936, and May 2, 1936, to see Mrs. McElligott, he was unable to do so because she was sick and he was also unable to demand the payment of the premium from her and had not had an opportunity to advise her of the existence of the policy.

Whether or not the policy was in effect or not depends upon the delivery of the policy. McGlone's own effort showed that he did not consider possession of the policy by himself as delivery to Mrs. McElligott, otherwise he would never have attempted to contact her.

(d) Mrs. McElligott did not testify in her own behalf. She was called by the defendants as an adverse witness under Rule 43 (b), and under the provisions of that rule, the defendants are not bound by her testimony, therefore, in so far as Mrs. McElligott is concerned, there is no evidence whatever in support of her allegation. She has definitely failed to sustain the burden of proof and consequently has no rights whatever under the policy.

(e) Mrs. Tarleton knew nothing about the policy. According to Mrs. McElligott's testimony, at no time between March 5, 1936, and May 4, 1936, was she ever contacted by Mrs. Tarleton to the existence or non-existence of the insurance. Mrs. Tarleton, according to her own testimony (Record, page 204) knew nothing whatever of the existence of this policy until some two or three weeks after the loss occurred.

The only person who had any knowledge whatever with respect to this fire insurance policy after it was issued by the San Francisco Underwriters is Mr. McGlone. He received the policy shortly after its date, to-wit: March 5, 1936, and he kept it until May 2, 1936. During that period of time, Ulvilla, of San

Francisco, dunned him for the premium. (Record, page 210.) During the same period of time, he tried to see Mrs. McElligott between March 5, 1936, and May 2, 1936, the date on which he returned the policy but he was unable to on account of her sickness so he returned the policy to the insurance companies through the same channels through which he received it. (Record, page 113.) He made no effort whatever to contact Mrs. Tarleton. (Record, page 129.) At no time did he ever demand an earned premium of $30 from either Tarleton or McElligott or a total premium of $200. (Record, page 144.)

The trial Court found when the evidence of the above was introduced that the policy was not in effect on the date of the fire loss and that neither of the appellants and respondents, Tarleton or McElligott, had any rights under the policy.

The United States Circuit Court of Appeals for the Ninth Circuit arrived at an opposite conclusion based upon the same facts and in so doing made several statements, not at all warranted by the facts which show conclusively that instead of following the findings of fact made by the trial Court, with due credit being given to the opportunity of the trial Court to judge of the credibility of witnesses, they, themselves, weighed the evidence in arriving at their conclusions which resulted in a decision reversing the judgment of the trial Court.

We have already pointed out that Mrs. McElligott did not take the stand on her own behalf and that she was however, called as an adverse witness by the de-

fendants pursuant to Rule 43 of the Rules of Procedure of the United States District Court adopted by the Supreme Court of the United States which in substance provides that an adverse party may be called as a witness, be cross-examined under oath, and the parties so calling the witness are not bound by his or her testimony. Her statement as to what occurred with respect to the fire insurance policy is entirely at variance with the testimony of Mr. McGlone. Mrs. McElligott's testimony cannot be reconciled with the testimony of Mr. McGlone in several particulars, to-wit:

1. According to Mrs. McElligott, she did not say she could not pay the premium. (Record, page 196.)

2. Mr. McGlone testified that when he received the policy, he attempted to contact Mrs. McElligott (Record, pages 113-118) and was advised that she was ill, and he was unable to see her.

3. It must be presumed in view of his testimony that McGlone kept the policy in his possession from March 5, 1936, to May 2, 1936, solely for the purpose of attempting to deliver the policy, to collect from Mrs. McElligott the premium, and to make the remittance of the premium to the insurance company involved; that he did not intend to deliver the policy to Mrs. McElligott unless she paid the premium. He would not be warranted in doing anything else because she had already demonstrated when he secured the first policy for her, that she was unable to pay the premium and he was obligated to cancel it during the month of December, 1935.

The testimony of McGlone being wholly irreconcilable with the testimony of Mrs. McElligott, they both cannot be true. If McGlone told the truth in his testimony, the appellants had no case whatever. The veracity of Mrs. McElligott, as well as the veracity of Mr. McGlone, is to be judged by their manner on the witness stand and by their actions as well as by the atmosphere of the entire transaction none of which can be reproduced in a record for the Circuit Court of the United States, written or otherwise printed.

Only where there is no evidence whatever to support the findings of the trial Court should this judgment be set aside. It is respectfully submitted that in accordance with the provisions of Rule 52 of the Rules of Procedure for the United States District Courts, there is nothing in this record to justify a finding by the United States Circuit Court of Appeals, either that there was no evidence to support the findings or that the findings were "clearly erroneous" and should be set aside. It is respectfully submitted that the only conclusion that could be deduced from the facts in evidence here is that the policy did not go into effect at all. No one could say that no reasonable man could draw such a conclusion as the trial Court did. And in the language of Judge Haney of the United States Circuit Court of Appeals of the Ninth Circuit who sat in this case as appears in the case of *Occidental Life Insurance Company v. Thomas* (supra) the findings are clearly erroneous only if no reasonable man could draw such conclusions. If any reasonable man could draw such conclusions, the findings should therefore stand.

The Court, in its opinion, makes several statements which are not all in accordance with the facts unless they select isolated portions of the testimony and give it full credibility, while at the same time totally disregarding all other evidence in the record which tends to contradict it but does in fact contradict it.

I. (Record, page 258.) Hubbs then sent in the application to A. J. Ulvilla, his superior, who in turn contacted John D. Richards, a general insurance broker in San Francisco.

This would seem to indicate that McGlone placed a formal application for insurance with Mr. Ulvilla, Special Agent for the Lumberman's Underwriting Alliance. This is contradicted by the record. McGlone, in his testimony stated (Record, pages 99-100), he asked Hubbs to help him place the insurance. Hubbs told him he could not place it in his own company but he would attempt to place it elsewhere for him. No one at that time knew of the company in which it was to be placed and they had already attempted to place it in several companies without success. Consequently an application was not being made to the San Francisco Underwriters by McGlone, Hubbs, Ulvilla or by any person else. Their intention seemed to be to contact some insurance company which would be willing to offer to insure the property under conditions to be thereafter agreed upon.

II. Approximately a week after the receipt of this communication which Richards forwarded to him, McGlone demanded of Mrs. McElligott the payment of $30 without informing her that he had returned the policy for cancellation. (Record, page 262.)

This statement entirely contradicts the testimony of Mr. McGlone which states that he never demanded payment of an earned premium from Mrs. Tarleton or Mrs. McElligott.

"Q. This last letter here, dated May 4, 1936, addressed to Mr. Richards on which you have been interrogated, did Mr. Richards send that to you?

A. No.

Q. Where did you get the letter?

A. Mr. Hubbs sent it to me for the Lumberman's Underwriting Alliance—I think Mr. Hubbs.

Q. What did you do when you received it?

A. I didn't do anything.

Q. Did you try to collect it?

A. No, I was waiting for Mr. Hubbs to come in.

Q. Meanwhile, you asked the company to cancel the policy flat?

A. Previous to that letter, yes.

Q. Previous to the letter you did nothing about this? Did you ever call it to Mrs. McElligott's attention?

A. No, sir.

Q. You didn't call this to Mrs. Tarleton's attention——

A. No, sir.

Q. ——this letter, this demand for payment of premium? And you didn't call it to Mrs. McElligott's attention?

A. No, sir."

Mrs. McElligott's testimony, on the other hand, was exactly the opposite (Record, page 195), and is in line with United States Circuit Court of Appeals for the Ninth Circuit language appearing in Record, page 262.

"Q. Did Mr. McGlone ever make a demand upon you for the payment of premium of $30 after May 2, 1936, and before May 21, 1936, the time of fire?

A. Yes."

It is respectfully submitted that both of these statements cannot be true and the truth of the one which is accepted as a fact, cannot depend on anything else except the credibility of the witness involved. The trial Court has the best opportunity of judging this credibility and under the circumstances, it is beyond the province of the Circuit Court of Appeals for the Ninth Circuit, to say that the testimony of Mr. McGlone is false and that of Mrs. McElligott is true because that Court is required, under the provisions of Rule 52 hereinabove referred to to give due regard to the opportunity of the trial Court to judge of the credibility of witnesses and if it fails to do so, it violates the plain provisions of that rule.

III. The Court makes a further statement. (Record, page 258.)

The record does not reveal what arrangements Richards made with them for the payment of the premium.

It is submitted that Mr. Richards appeared as a witness during the course of the trial and it is clear by inference that neither Mr. Richards or the San Francisco Underwriters, or Mr. Ulvilla intended to permit Mr. McGlone, or appellant and respondent, Tarleton, to have possession of this policy without the payment of premium. This is shown by the fact that Mr.

Ulvilla (Record, page 210) continued at the request of the insurance company to dun Mr. McGlone for the premium on the policy between its date, March 5, 1936, and the date on which it was returned, May 2, 1936. That McGlone (Record, page 144), previously, during this period of time, had requested that the policy be cancelled flat. It is apparent that the dunning by Mr. Ulvilla, of Mr. McGlone, for either the policy or the premium, brought the policy back to the insurance company through the same channels through which it was received. It is obvious from the record as a whole that the insurance company did not intend this policy should ever be in effect unless the premium on it was paid even though the possession of it might temporarily be in the hands of Mr. McGlone, and it is shown by the records this possession was for the purpose of delivery and not otherwise, and Mr. McGlone, as shown by his actions, understood it.

The record further shows that no money was ever paid to either of the defendant insurance companies, either directly or indirectly. (Record, page 202.) Mrs. Tarleton testified that between the date of the mortgage, April 24, 1936, and the time of the fire loss, May 21, 1936, she never made any inquiries of Mrs. McElligott as to the existence or the non-existence of the policy. In the preliminary statement of facts in connection with the case under "History and Pleadings", we have set forth six separate defenses, most of which were based upon the testimony of Mr. McGlone, as shown by a deposition taken in August, 1937, which was at total variance with his testimony in many re-

spects when he took the stand during the course of the trial.

At the taking of his deposition in August, 1937, he stated in substance, that after he received the policy, he had an agreement with McElligott that she would pay the premium within sixty days from the date of the policy. For the convenience of the Court we quote as follows (Record, page .....):

"Q. And what arrangements if any did you make with her about the payment of the premium?

A. Well, she should pay the money when it was due.

Q. When was it due?

A. Well, on this last one it would be due sixty days or a little better than sixty days.

Q. Sixty days from what? After the date of the issuance of the policy?

A. Yes.

Q. You were asked those questions, and did you give those answers?

A. Yes, sir."

This is at total variance with the testimony which he gave during the trial. He stated (1) that between March 5 and May 2, 1936, he attempted to but could not contact Mrs. McElligott; (2) that at the taking of his deposition in August, 1937, he stated that he didn't recall whether or not the policy was in his possession while the deposition shows that on August 31, 1938, he corrected the record to show that he kept the policy in his possession.

It is obvious that these two contradictory statements made by McGlone, to-wit:

In the taking of his deposition in August, 1937:

1. That after he received the insurance policy sued upon he had an agreement with Mrs. McElligott whereby she would pay the premium within sixty days from the date of the policy, that is, sixty days after March 5, 1936 (before May 4th).

And his testimony upon trial:

2. That between the date on which he received the policy, to-wit: March 5, 1936, and the date upon which he returned it to the companies, May 2, 1936, accompanied by a letter stating that he returned it because the insured was ill and could not pay the premium at that time (Record, page 115) and also his further statement that between March 5, 1936, and May 2, 1936, he asked that the policy be canceled flat (Record, page 144) cannot be true.

The meaning of his testimony must be construed by the trial Court which has before it these contradictory statements above pointed out. The trial Court might assume, for the purpose of argument without admitting it, that McGlone did in fact contact Mrs. McElligott and make an agreement with her whereby she was to pay the premium within sixty days. Under those circumstances, it is obvious that McGlone did not intend to deliver the policy until he received the payment of premium, and when he did not receive the premium in accordance with this agreement, within sixty days, he refused delivery of the policy to her. On the other hand, the Court could assume from the nature of the two statements which are contradictory of each other, that the greater probability of the truth

lay in the fact that he attempted to but did not see Mrs. McElligott because she was sick (Record, page 113) and made no attempt whatever to contact Mrs. Tarleton (Record, page 129) because this coincides with the letter which he wrote to the San Francisco Underwriters on May 2, 1936, stating that the insured could not pay the premium, and the Court would therefore construe that the policy had not in fact been delivered, or accepted by the plaintiffs, appellants and respondents, or either of them, and hence the policy did not come into effect at all.

Here again, we are confronted with the credibility of the testimony of McGlone on the witness stand, as opposed to the testimony which he gave upon his deposition in 1937. This is a matter within the exclusive province of the trial Court and not within the province of the United States Circuit Court of Appeals. The veracity of McGlone is so far to be judged by his manner on the witness stand and by his actions as well as the atmosphere of the entire transaction, none of which can be reproduced in a record for the Circuit Court of Appeals, either written or printed, that only where there is no evidence whatever to support the findings of the trial Court that the policy did not come into existence should the findings of the trial Court be set aside.

It is respectfully submitted that in accordance with Section 52 of the Rules of Civil Procedure for the United States District Courts, there is nothing in the record to justify a finding by the United States Circuit Court of Appeals that there was no evidence to sup-

port the findings of the trial Court and that the policy did not come into effect and that it had not been delivered to or accepted by either of the plaintiffs, appellants or respondents. The findings of the trial Court in this regard were "not clearly erroneous" and should not be set aside. Even if we assume that the delivery of the policy might be a question upon which reasonable men might reasonably differ, we submit that there is nothing unreasonable in the deduction of the trial Court that the policy did not in fact come into existence at all and that there was no liability under the policy in so far as the defendants, appellees and petitioners are concerned.

The insurance companies are in an unusual position as far as the insurance policy is concerned. They received the policy back on May 2, 1936, within 60 days after its issuance through the same channels through which it was sent to Mr. McGlone, accompanied by a letter signed by McGlone, agent for McElligott, stating that it was returned for cancellation and that the premium could not be paid on account of illness. The insurance companies have no way of determining what in fact did happen to the policy after it had been sent to McGlone, and they were justified in believing as they did that this was a request for cancellation by the insured.

The defendants, in their answer, have set up six separate defenses. (Record, pages 50-58, inclusive.) The first defense is based upon the theory that the premium was to be paid within sixty days and if not paid, the policy would be surrendered and cancelled.

This was based upon the testimony of Mr. McGlone taken at his deposition, August, 1937, which he did not sign until August, 1938. The second defense is based upon a request for cancellation by the insured prior to loss. This defense is based upon the letter dated May 2, 1936, returning the policy and advising the companies that the insured could not pay the premium and it was therefore cancelled. The third defense was the same in substance as the second defense and likewise the fourth. The fifth defense is based upon the invalidity of the policy according to the terms by reason of false representations, etc. The sixth defense is based upon the theory that the premium was payable on demand, that demand was made and the premium was not paid. The policy was surrendered by the insured to the insurance companies. This latter defense is likewise based upon the communication from McGlone.

The above defenses were pleaded on the basis of information in possession of the appellees and petitioners herein at the time that the answer was filed on or about July 20, 1937. The deposition was taken on August 7, 1937, and signed and sworn to on August 14, 1938, about thirteen months after the defendants had filed their answer in the case.

Mr. McGlone was questioned with respect to statements that he made on the taking of his deposition in August, 1937, which contradicted statements which he made on the stand at the trial, and they are so widely divergent that both of them cannot be true. Upon the taking of his deposition in August, 1937, he stated that

he did not remember whether the policy was in Mrs. McElligott's possession but when he corrected it in August, 1938, he stated that it was always in his possession. When his deposition was taken, he stated that he had an agreement with her that she would pay the premium within 60 days from the date of the policy (about May 2, 1936, the date on which the policy was returned to the insurance companies) while upon trial, he stated that he never attempted to contact Mrs. Tarleton but he did attempt to contact Mrs. McElligott to deliver the policy but could not do so because she was ill and he further stated, in language which could not possibly be misunderstood, as follows (Record, page 113):

> "Q. And did you after the issuance of this policy on March 5, 1936, and prior to, say, May 2, 1936, ever make a demand upon Mrs. McElligott for the payment of this premium of $200.00?
>
> A. I went out to see her to make a demand, but I couldn't see her."

The facts with reference to the policy are in the possession of McGlone and the appellees have no way of telling what that information may be except through his deposition prior to trial and from his testimony taken during the course of the trial.

It is an impossibility to believe these contradictory statements. They must be construed, in connection with all the surrounding circumstances and particularly the documentary evidence, evidenced by the letter referred to as Exhibit A (Record, page 115) which most closely coincides with his testimony during

the trial. It will be borne in mind that he was confronted with this letter for the first time at the trial and that fact alone probably explains the diversity in his testimony taken on his deposition in August, 1937. The letter of May 2, 1937, cannot be explained rationally on any other theory than, that McGlone did either one of two things: Either the policy was offered to Mrs. McElligott and she refused to accept it or he attempted to deliver it to her and could not contact her because of her illness or that he refused to deliver it because she couldn't pay the premium and his prior experiences indicated that she was a bad credit risk and unless the premium was paid, he himself would be responsible for the premium.

Inconsistent defenses may be pleaded under the new rules. At the time that the answer was filed and the deposition from Mr. McGlone was signed, appellees had no reason to believe that this would not be the testimony of Mr. McGlone on trial. However, when he was confronted with his own handwriting showing that he returned the policy to the insurers because the insured could not pay the premium, he took a different stand entirely. He testified as we have indicated throughout the brief, showing by his testimony that he never did make an attempt to deliver the policy to Mrs. Tarleton but on the other hand he attempted on several occasions to see her and to talk with her but was unable to do so each time that he called at her place of business. It is submitted that Mr. McGlone never did intend to deliver the policy unless the premium was paid and if such was the fact, possession by him was not delivery to Mrs. McElligott or to Mrs.

Tarleton. On the other hand, if he attempted to deliver the policy to them, but was unsuccessful, then the policy never did come into effect and on either theory of the facts, there would be no liability under the policy because the policy did not come into being.

POINT E.

THE UNITED STATES CIRCUIT COURT OF APPEALS DID NOT INTERPRET AND DID NOT APPLY THE RULE IN FERRAR v. WEST ASSURANCE CORPORATION, 30 CAL. APP. 489, TO THE FACTS IN THE CASE AT BAR.

In the *Ferrar* case, supra, the assured instructed her agent to take care of her insurance and to see that she was kept covered. The agent handled her affairs in respect to several insurance transactions. The agent thereafter accepted notice of cancellation from one company and procured new insurance, with the defendant companies. The question arose as to whether this prior policy was not still in force therefore invalidating defendants' policy, the defendant companies contending that the assured's agent had no authority to receive notice of cancellation of the prior policy. The Court held in that case that the agent had authority to receive notice of cancellation of the prior policy (p. 491):

> "Perhaps when Coleman (the agent) placed the first insurance for Mrs. Plier (the assured), he was merely an insurance solicitor, whose authority was quite limited, but later, as we have seen, she extended his authority by telling him 'to take care of her insurance and to see that she was covered to the amount of $1000'."

And the Court concluded (p. 492):

"Coleman's testimony we think tends to co roborate the testimony of Mrs. Plier; but we a satisfied that the direction by Mrs. Plier to Col man just referred to made him more than a me soliciting insurance agent, and constituted him, found by the Court, her general agent to keep h insured to the extent of one thousand dollars i respect to the property here involved. Being h general agent for this purpose we think he wa authorized as an incident of his employment t accept and to act upon a notice of cancelatio (Stevenson v. Sun Insurance Office, 17 Cal. Ap 280 (119 Pac. 529).) 'A general agent with pow to insure property and to keep it insured ma accept notice of cancelation and procure sub stituted insurance or renewal of insurance in a other company.' "

It applies to the case at bar showing that McGlo has power to cancel. Mrs. McElligott first made co tact with Mr. McGlone in August, 1935; he secured policy for her through the Lumberman's. Thereafte she told him to keep her insured in one company another. (Record, pages 194, 195, 118.) Thereafter, h negotiated policies for her with the Kansas City Fi & Marine and Commerce Company, and then starte proceedings with respect to the fourth policy with th appellee companies.

Mrs. McElligott knew of these three transactio and by her instructions to McGlone to keep her i sured gave him authority to cancel as under the pr ceding cases. The fact that McGlone retained th policy in his possession, returned it to the compa

in this case, made an ostensible, if not an actual authority to deal with it in this manner.

On a rehearing of this case, the Supreme Court of California withheld approval of the "ratification language in the case as unnecessary to the decision because the Appellate Court directly held that the agent in the case had authority to cancel.

The case of *Kooistra v. Rockford Insurance Company,* ..... Mich. ....., 81 N. W. 568, is a case on "all fours" with the case at bar, with respect to the authority of an agent to cancel. In that case, the agent of the assured received the policy and then received notice of the cancellation and returned the policy. Thereafter, this performance was repeated with respect to three other policies, and in case the agent accepted notice of cancellation and returned the policy. The assured never had possession of the policies yet instructed the agent to keep trying to get insurance until he found some company who would carry it. The Court held that the agent had authority to cancel, accept notice of cancellation, accept five days' notice required by the policy if surrendered, the Court said:

> "The four policies had been issued, surrendered and canceled while they were in the agent's possession. Can plaintiff have her choice as to which one of these is valid? If the first was valid all others were void, furthermore, she ratified the act of her agent in surrendering the policy upon the furniture secured through Mr. Bodwell. Was Lathrop her agent, could he surrender one policy and not the other, was the policy in the hands of her agent and thus placed it in his hands who

> acted in good faith in canceling the policy. If Mr. Lathrop failed to notify the plaintiff, it is no fault of the defendants. *By leaving the policy with her agent, she placed it in his power to mislead defendants.* If both parties are innocent, it is her act which misled and she must be the sufferer. There is no substantial dispute as to the material facts of the case, therefore, it became a question of law for the Courts and the Courts should direct a verdict for the defendants. Judgment is reversed and in as much no different case can be made upon a new trial, none will be ordered."

A solicitor with authority to effect a particular insurance in the absence of other circumstances does not have implied or expressed authority to cancel or to accept notice of cancellation yet the presence of other circumstances will clothe him with authority. In the cases of *Stevenson v. Southern Insurance Office,* 17 Cal. App. 280, *Ferrar v. Western Assurance Corporation,* 30 Cal. App. 489, and *Kooistra v. Rockford Insurance Company,* ..... Mich. ....., 81 N. W. 568, we find instructions to keep the premises insured and to continue negotiations with several companies and the retention of the policy by the agent and the return to the company showed intention to clothe them with more than bare authority usually present and therefore, an agent in such a case has authority to cancel and to accept notice of cancellation. It is submitted that the conduct of the appellants in the case at bar definitely brings the case within the authority just outlined. The trial Court findings that McGlone had the authority to return the policy for cancellation is supported by the evidence and the law.

The Circuit Court of Appeals for the Ninth Circuit, at page 298 of its opinion, refers to the case of *Kooistra v. Rockford Insurance Company,* indicating that the decisions in the various Courts upon the question as to the authority of an insurance broker to effectuate the cancellation of a policy are not in harmony, and holds that under the doctrine of *Erie v. Tompkins,* they are bound by the California law and then proceed to disregard the rule in *Ferrar v. Western Assurance Corporation* and apply an entirely different rule based upon a dictum appearing in the case of *Laumann v. Springfield Fire Insurance Company,* 184 Cal. App. 650, 652.

It is respectfully submitted that the *Laumann* case does not establish a rule different from the rule in *Ferrar v. Western Assurance Corporation,* because both of these cases are distinguishable on the facts. In the *Laumann* case, Laumann owned the property which was covered by a mortgage to H. R. Dodge in the sum of $1800. The policies of insurance were issued and the mortgage clause was attached as the mortgage clause is attached in the instant case. *The policies were actually delivered and were in effect for several days,* at that time; the insurance company contacted the agent and requested him to cancel the policy. The agent contacted Laumann, the owner of the property, and secured the policies of insurance from him at which time Mr. Laumann agreed that the policies be canceled. No notice whatever was given to the mortgagee, H. R. Dodge. Dodge knew nothing about the transaction and a few days later a loss occurred and the company denied liability. Upon trial,

the Court held that the owner of the property, Laumann, agreed to the cancellation of the fire insurance policy and that Dodge, the mortgagee, had not agreed to it and the policy was still in force and effect as to him. The clause in the policy provided for the method of cancellation, to-wit: by the insured, upon request, or by the company upon notice 5 days to the owner and 10 days to the mortgagee. It could not be canceled in any other way and this is the rule in respect to fire insurance policies generally.

In the instant case, we see an insurance policy that never did go into effect. McGlone had possession of the policy, no attempt to deliver it to Mrs. Tarleton, the mortgagee, several attempts to contact Mrs. McElligott between the date of the policy and the time he returned it, but was unable to do so because he was told that she was sick and he could not secure an agreement from her for the payment of the premium, never called her attention to the fact that he had the policy, and consequently returned the policy to the company through the same channels through which it was received. For that reason, the rule in the *Laumann* case, supra, cannot apply. In addition to that, the other distinguishing feature is that McGlone in this instance dealt with at least three or four companies and was permitted to adopt the same procedure generally. In the instant case, there had been no acceptance of the policy and the policy was not in force and effect. In the *Laumann* case, the policy became effective as a fire insurance contract and it could not be rescinded or canceled except in accordance with the

terms of the contract or by mutual agreement by all parties concerned. The owner only, in the *Laumann* case, agreed to a cancellation and thereby waived compliance with the terms of the policy which gave him the benefit of a five day notice in the event of cancellation by the company. His own testimony indicates that he understood that he waived compliance when he orally agreed with the agent, that the policy was canceled, that the company had no liability on it whatever. The mortgagee is altogether different. The delivery and acceptance of the policy and the fact that it was in full force and effect gave him a vested and absolute right of which he could not be deprived unless the terms of the contract, which so far as he was concerned, were strictly complied with. It is obvious from the facts as they appear in the *Laumann* case, that the policy could be canceled as to the mortgagee, only upon 10 days' notice, and in accordance with the provisions of the policy. This notice was not given and therefore as to the mortgagee, this policy was in full force and effect.

Compared with the case at bar, there is no similarity at all in the facts. The insurance policy had never been in the possession of Mrs. Tarleton or Mrs. McElligott; the Court found as a fact that the policy was not in full force and effect; that there was no delivery of the policy and no contract of insurance was consummated between the parties.

POINT F.

WHAT IS THE SCOPE OF REVIEW OF THE FINDINGS OF FACT AND CONCLUSIONS OF LAW OF THE TRIAL UNITED STATES DISTRICT COURT BY THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT, PURSUANT TO THE PROVISIONS OF RULE 52 OF THE RULES OF PROCEDURE FOR THE UNITED STATES CIRCUIT COURT ADOPTED BY THE SUPREME COURT OF THE UNITED STATES?

Under the old federal system, that is, before Rule 52 took effect, there was a statute which provided that in cases tried where a jury has been waived by agreement, the findings of the Court should have the effect of a verdict. (U. S. C., Title 2, Sec. 773.) That meant that they could not be set aside there or on review if there was any substantial evidence to support them. On the other hand, where you had the same judge trying the case without a jury and findings of fact, the equity rule was that the findings were not binding upon the United States Circuit Courts of Appeal.

Now under Rule 52, we have united the law and equity in a common procedure. We could not say "well, this is an old equity case and therefore the findings should be governed by this rule" or "it is an old law case cognizable at law under the old system". The enabling act contemplates uniformity, having the same system and it is obvious to anyone that the question as to the weight to be given to a judge's findings does not depend upon whether or not it was once a law case or once an equity case. The weight of the findings depends upon the way the findings are made and in both cases whether it was originally a law case or originally an equity case; the judge is the one who hears the evidence and makes the findings.

The advisory committee was of the opinion that the same weight should be given to both classes of findings. We could not perpetuate the difference between actions at law and suits in equity and therefore we must adopt one rule common to both types of cases where the judge tries the facts. And that puts the advisory committee to the choice of whether they should adopt the equity rule or the law rule or whether they should narrow the exent to which the equity findings previously were examined, or enlarge the extent to which the findings in law cases tried by a judge without a jury should be examined.

The advisory committee was in agreement as to the limitation of review to be provided for in issues tried by the Court without a jury. Dean Clark (now Circuit Judge in the Second Circuit) advocated an extension of the law type of review to Courts' findings of fact.

Clarke & Stone, Review of Findings of Fact (1937), 4 Chi. U. L. Rev. 190, 191, 192.

The majority of the committee favored the extension of the equity rule to all issues tried by the Court.

(Note of Supreme Court following proposed Rule 68, preliminary draft, 1936.)

Instead of submitting alternative rules and permitting the Supreme Court to make its own choice which was done in other instances, the equity form—"Findings of the Court in such cases shall have the same effect as that heretofore given findings in suits in equity" was advocated.

(Proposed Rule 65, preliminary draft, 1936.)

Transmitting the first public draft of the rules to the Supreme Court, the chairman of the committee stated that it was obvious that the law type of review must be rejected.

(Preliminary Draft, 1936, XIV.)

Its rejection was not treated as obvious in the notes of the Supreme Court following proposed Rule 68. *The rule was changed in the second published draft.*

(Proposed Rule 59, Report of the Advisory Committee, 1937.)

The language of the second draft in so far as it pertains to the scope of review of the facts, is the same as in Rule 52 and adopted by the Supreme Court which provides:

"Findings of fact shall not be set aside unless clearly erroneous and due regard shall be given to the opportunity of the trial Court to judge of the credibility of the witnesses."

It has been assumed in some of the decisions of the United States Circuit Court that Rule 52 provides for the equity of review. *But it is submitted that the scope of review called for by this rule is an open question for the Supreme Court to settle* for not only has the expressed equity characterization been deleted in favor of language which, although found in modern federal equity cases, seems to be an accurate statement of the effect to be given jury verdicts.

Clarke & Stone, Review of Findings of Fact (1937), 4 Chi. Un. L. Rev. 190 at page 210, note a.

But also the committee notes state *not that Rule 52 "adopts"* the equity rule, but merely that it is in *"accord"* with the modern federal equity practice.

If the traditional concept of a review of the findings at law is applied under Rule 52, the burden on the Appellate Court will be lightened; particularly is it desirable that the Supreme Court be freed from analyzing confused and conflicting testimony and passing upon the weight of evidence. It is submitted that the United States Supreme Court should find Rule 52 ambiguous and resolve the question in favor of the common law rule rather than in favor of the former equity rule.

In paragraph A of this brief above, we have pointed out by reference to specific cases, that the various Circuit Courts of the United States are not in harmony as to the scope of review under this rule, the Fourth Circuit having three times ruled that it is "the formulation of a rule long recognized and applied by the Courts of equity" while the First Circuit identifies Rule 52 with the former rule in law cases and a later decision in the Eighth Circuit states that it is not the function of the Court to retry the case and to pass upon questions of fact, the determination of which depended upon the credibility of witnesses and the weight of evidence or to substitute its judgment for that of prior facts which had reached permissible conclusions. The decisions of the Fifth and Seventh Circuits are in disagreement among themselves and with each other, as indicated by the cases cited, supra. The United States Circuit Court of Appeals for the

Ninth Circuit has twice held that questions as to the weight of evidence are not to be decided by them. Judge Haney, a judge who sat in the instant case, has stated that findings are "clearly erroneous only if no reasonable man could logically draw such conclusions from them", while a former decision by Judge Haney indicates that the rule under 52 is different from the old law rule.

Anglo-California National Bank v. Lazard, supra.

If the equity of review is to be followed in all non-jury cases, some disparate results will follow.

A. In actions against the United States, the District Court sits as a Court of Claims without a jury.

J. Homer Fritch, Inc. v. United States, 248 U. S. 458 (1919).

It is provided by statute that the law rule shall apply to review of findings of the Court of Claims.

Act of May 22, 1938, amending 28 U. S. C. 288b. Formerly review was limited to questions of law alone.

B. The scope of review in cases brought in the District Courts is unsettled.

1. Earlier cases assume that the law rule applies.

Lee Hardware Co. v. United States, 25 F. (2d) 42 (C. C. A. 8th, 1928);

Wessel v. United States, 49 F. (2d) 137 (C. C. A. 8th, 1931).

2. But a recent decision applying the full review of equity to such a case was denied certiorari by the Supreme Court.

First National Bank of Chicago v. United States, 102 F. (2d) 907 (C. C. A. 7th, 1939), certiorari denied, 307 U. S. 641 (1939), rehearing denied, 60 Sup. Ct. 69 (1939).

If Rule 52 adopts the equity of review, this case is a correct statement of the present law, but the result will be a different scope of review depending upon whether the plaintiff goes into the District Court or the Court of Claims.

A similar result may follow in similar cases in which the party has an option to proceed before the Board of Tax Appeals or bring the suit in the District Court.

26 *U. S. C.* 641C (1934);

Helvering v. Johnson, 104 F. (2d) 140 (C. C. A. 8th, 1939);

Holds: "Findings of the Board of Tax Appeals are conclusive if supported by substantial evidence."

THE BACKGROUND FOR PROPER REVIEW.

A continuation of the old distinction between law and equity is undesirable because it requires the upper Court to make a distinction which it is the main purpose of the new reform to avoid. The extension of the equity review appeals to those who feel that a second

review by an Appellate Court of more than one judge is necessary for the proper control of the trial Court's action.

OUR HISTORY INDICATES THAT THE RIGHT OF APPEAL SHOULD BE RESTRICTED

(a) For the purpose of protecting from a plethora of cases, our important Federal Appellate Courts, particularly the United States Supreme Court through a reduction of the number of appeals, the record in those cases where appeals are lost.

(b) Because the trial judge's reaction to witnesses is on the whole more dependable than those to be obtained, only from the printed record. This feeling has definitely resulted in a restriction of the equity review.

AN EXTENSION OF THE SCOPE OF REVIEW IS NOT DESIRABLE

(a) Because it is not in keeping with our history.

(b) It would present definite problems of conflict as to other important federal cases, notably claims against the United States, claims for tax refunds before the Board of Tax Appeals which will definitely result in a different type of review depending upon whether the party seeking relief elects to proceed in the United States District

Court or to file the claim in the Court of Claims or before the Board of Tax Appeals.

(c) It would continue a divided practice upon appeal and would prevent the simplicity and uniformity of one single, concrete rule.

In conclusion, bearing in mind the advantages, simplicity and uniformity, compatible with other federal jurisdiction; reducing appeals and complex records; giving due weight to the findings of the trial judge who heard the witnesses; eliminating reversals except on substantial ground while nevertheless supporting substantial grounds to correct errors where necessary, it is submitted there are very substantial reasons why the law type of review should be extended to all types of cases alike.

If the decision of the United States District Court is subject to full review while the Board of Tax Appeals or the Court of Claims has a limited law review, there is an incentive to jockeying for position in these cases and the development of clear-cut and certain rules of substantive law upon which business men may rely is impeded.

We submit that the "Law Rule of Review" which prevents setting aside findings on appeal unless they are unsupported by the evidence, should be applied in all cases whether arising in the District Court, the Court of Claims or before the Board of Tax Appeals, because it will establish uniformity of procedure and reduce the burden on appellate judges.

CONCLUSION.

The only guide that the United States Circuit Courts of Appeal for the various Circuits has for reviewing the findings of the trial Court is afforded by the Rules of Procedure for United States District Court adopted by the United States Supreme Court, themselves, and the interpretation of those rules by the United States Supreme Court and other Circuit Courts of Appeal of competent jurisdiction.

If the rule laid down here is permitted to stand, to-wit: that the findings of the trial Court are not binding upon the Circuit Court of Appeals, then the decision in this case undermines the whole purpose of the Rules of Procedure, to-wit: uniformity. This decision will be the basis for providing a different scope of review depending upon whether the case is initiated in the United States District Court or the Court of Claims or before the Board of Tax Appeals. The decision in the case is of great public importance and interest not only to the Courts but to the legal profession as well.

If allowed to stand as the law, it will permit conflicts in decisions in the various United States Circuit Courts to continue and to impair uniformity of decisions where uniformity is significant and this conflict can be removed by the decision of the United States Supreme Court in this particular case.

This Court should declare the law defining the scope of review by an Appellate Court of the findings of the facts and the conclusions of law of the trial Court because the intrinsic importance of the issue

calls for its most authoritative determination, and it is submitted that the Circuit Court of Appeals for the Ninth Circuit has decided an important question of federal law which has not been but should be settled by this Court.

The elucidation and interpretation of the decisions of the United States Circuit Court of Appeals for the Ninth Circuit has failed to interpret and failed to apply to the facts in the case at bar, the decisions of the United States Supreme Court in the cases of *Erie v. Tompkins,* supra, *Cities Service Oil Company v. Dunlap,* supra, and *Pennsylvania Railroad Company v. Chamberlain,* supra.

We respectfully submit that for the reasons stated, the petition for the writ of certiorari filed herein should be granted.

Dated, Sacramento, California,
November 8, 1940.

WALLACE SHEPARD,
Counsel for Petitioners.

FRANK L. MURPHY,
Of Counsel.

Due service and receipt of a copy of the within is hereby admitted

this.....*day of November, 1940.*

.....

.....

Counsel for Respondent,
Ida Louise Tarleton.

.....

Counsel for Respondent,
Mary Ann McElligott.

IN THE

Supreme Court

OF THE

United States

OCTOBER TERM, 1940

No. 576

CLARENCE DE VEUVE, etc., et al.,
Petitioners,

vs.

IDA LOUISE TARLETON, et al.,
Respondents.

BRIEF OF RESPONDENTS IN REPLY TO PETITION FOR WRIT OF CERTIORARI.

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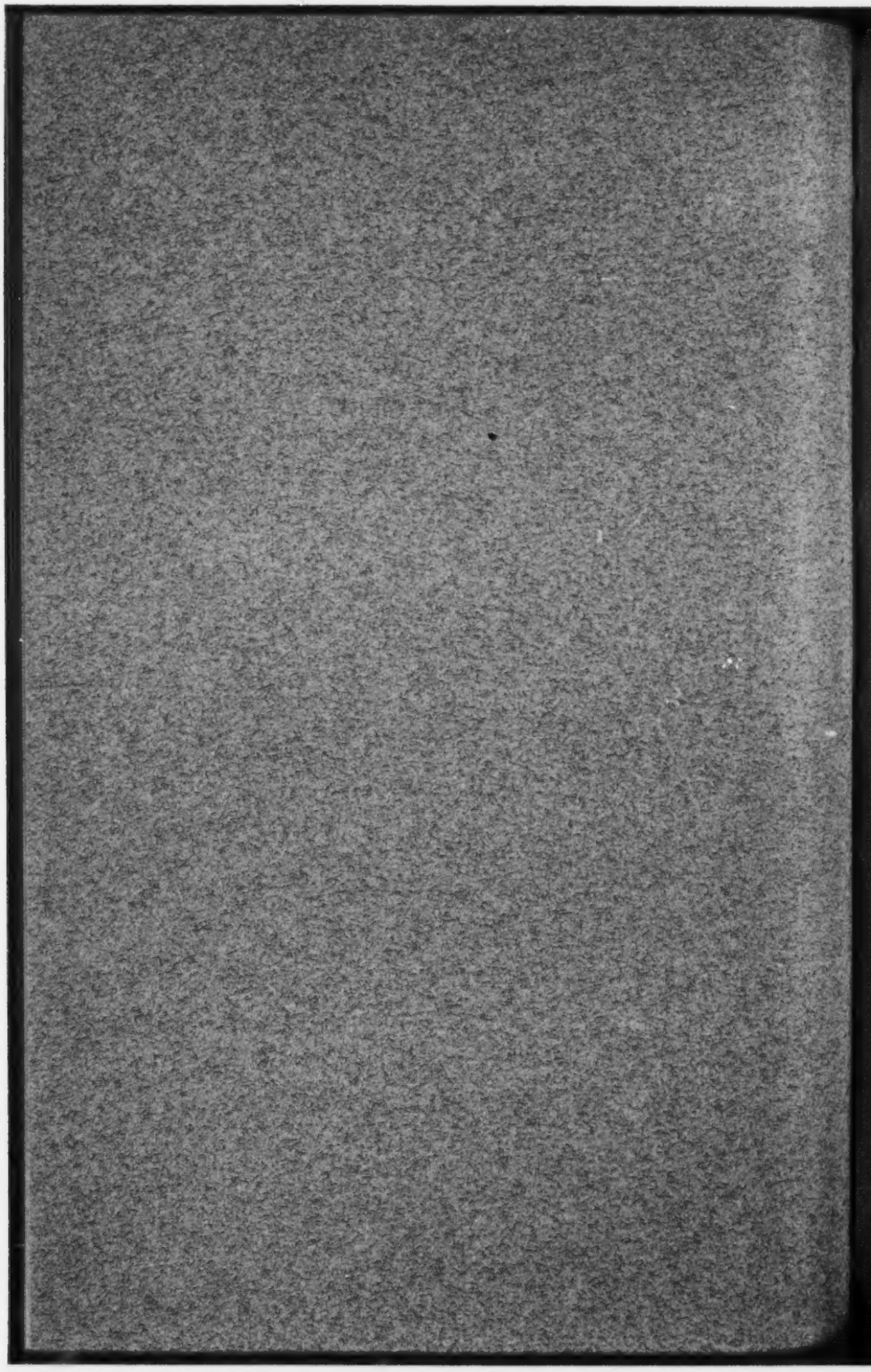

SUBJECT INDEX

	Page
The Facts, Proven Without Conflict of Evidence or Admitted	3
Chronological Statement of Facts	5
Analysis of Admitted Facts	10
Payment of Premium on a Fire Insurance Policy Is Not a Condition Precedent	12
Analysis of Contentions by Petitioners for Review	15
The Circuit Court of Appeals Literally and Accurately Applied the Law in California to the Facts in the Instant Case	23
Cancellation as to Respondent McElligott	25
Cancellation as to Respondent Tarleton, the Mortgagee	28
The Fact That the Mortgagee Has No Knowledge of the Policy or Mortgage Clause Until After the Loss, Is Wholly Immaterial	29
Acceptance of the Policy Was Not Required by the Mortgagee Tarleton to Complete the Contract	32
The Mortgage Clause Was Neither Cancelled Nor Attempted to Be Cancelled	33
The Law of the State of California	39
In Conclusion, It Is Submitted	42

TABLE OF AUTHORITIES CITED

CASES

Page

Anglo California Nat. Bank v. Lazard, 106F (2nd) 693 18

Cities Service Oil Co. v. Dunlap, 308 U. S. 208, 84 L. Ed. 196, 60 Sup. Ct. 201 ..... 19, 23

Eddy v. London Assur. Corp., 143 N. Y. 311, 25 L. R. A. 686 31

Emery v. Pacific Emp. Ins. Co., 67 P. (2d) 1046, 1051, 8 Cal. (2d) 663 ..... 27, 41

Erie V. Tompkins, 304 U. S. 64, 82 L. Ed. 1188, 58 Sup. Ct. 787 ..... 19, 23

Equitable Life Ins. Society v. McElroy, 83 F. Rep. 631, 49 U. S. App. 548, 28 C. C. A. 365 14

Farnun v. Phoenix Insurance Co., 83 Cal. 246, 255, 23 Pac. 869 13

Federal Land Bank v. Atlas Assur. Co., 125 S. E. 631, 634, 635, 188, N. C. 747 ..... 32, 34

Ferrar v. Western Assur. Co., 30 Cal. App. 489, 159 Pac. 611, 609 ..... 24, 26, 39, 41

Germania Fire Ins. Co. v. Bally (Ariz.), 173 Pac. 1052, 1 A. L. R. 488, 492 36

Gilman v. Commonwealth Ins. Co., 112 Me. 528, 92 Atl. 721 ..... 31, 34

Harrigan v. Home Life Ins. Co., 128 Cal. 531, 546 21

Hooker v. American Indemnity Co., 12 Cal. App. 2d 116 41

Khan v. Royal Indemnity Co., 39 Cal. App. 183 22

Lauman v. Springfield Fire Ins. Co., 184 Cal. 650, 652, 195 Pac. 50 ..... 26, 27, 34, 40, 42

Occidental Life Ins. Co. v. Thomas, 107 Fed. (2nd) 876 18

Raulet v. Northwestern etc. Ins. Co., 157 Cal. 213, 222, 107 Pac. 292 13

Rawl v. American Cent. Ins. Co., (S. C.), 77 S. E. 1013, 45 L. R. A. (N. S.) 463 34

Sterling Fire Ins. Co. v. Comision Reguladora, 143 N. E. 2, 6 ..... 14, 23

TABLE OF AUTHORITIES CITED *(Continued)*

Page

Stevenson v. Southern Insurance Office, 17 Cal. App. 280, 119 Pac. 529 39

Union Central Life Insurance Company v. Pauloy, 8 Ind. App. 85, 35, N. E. Rep. 190 14

Union Institution for Savings v. Phoenix Ins. Co., 81 N. E. 994, 196 Mass. 230, 14 L. R. A. (N. S.) 459 30

Union Trust Co. v. Philadelphia Fire & Marine Ins. Co., 145 Atl. 243, 247 (Me.) 35

Walker v. Queen Ins. Co., 136 S. C. 144, 134 S. E. 263, 52 A. L. R. 259 36

Quong Tue Sing v. Assurance Corp., 86 Cal. 566 41

TEXTS

Couch on Insurance, §625, p. 2004 14

1 Couch on Insurance, §125, p. 231 22

5 Couch on Insurance, §1215, p. 4424 29

6 Couch on Insurance, §1439, p. 5093 34

IN THE

Supreme Court

OF THE

United States

No. 576, October Term, 1940

Clarence de Veuve, doing business under the firm name and style of San Francisco Underwriters of San Francisco, The Texas National Insurance Company of Dover, Delaware (a corporation), and The Security National Fire Insurance Company of Galveston, Texas (a corporation),

Petitioners,

vs.

Ida Louise Tarleton and Mary Ann McEllgott,

Respondents.

BRIEF OF RESPONDENTS IN REPLY TO PETITIONERS' BRIEF FOR ISSUANCE OF WRIT OF CERTIORARI.

MAY IT PLEASE THE COURT:

Petitioners state their reasons for review on Writ of Certiorari herein to be:

(a) That the decision of tht Circuit Court in predicating its reversal of the District Court's judgment upon the ground that the Findings of Fact found no support in the evidence and, furthermore, "failed to apply" Rule 52 of the Rules of Civil Procedure for the District Courts: and

(b) That the decisions of the several Circuit Courts are not altogether harmonious, as Petitioners put it, in construing Rule 52, and, therefore, this Court should "authoritatively determine" the true construction of such rule: finally,

(c) That the Circuit Court in reversing the judgment of the District Court did not correctly apply the law of the State of California, as determined by its highest tribunal.

* * *

Respondents urge most respectfully that no ground exists herein for the issuance of Certiorari:

For the reasons—

1stly—That there is no federal question involved;

2ndly—That the decision of the Circuit Court scrupulously follows the existing law of the State of

California, as defined by its Supreme Court—its highest judicial tribunal;

3rdly—That there is no actual, nor even apparent, conflict between the decisions of the several Circuit Courts as to the interpretation of Rule 52 of the District Courts: The rule is so clearly written that interpretation would be almost supererogatory; and

4thly—That the decision of the Circuit Court here is in strict accord with the existing and controlling decisions of this Court on the questions raised by Petitioners.

* * *

THE FACTS, PROVEN WITHOUT CONFLICT OF EVIDENCE OR ADMITTED

Unless the material facts be accurately stated in any appellate proceeding, so that all parties may have an identic base upon which to predicate their several legal contentions, it is a muchly waste of time, both for Counsel to indulge in arguments and for Courts to entertain the same which are not addressed and do not meet the same specific issue.

Variable factual situations obviously create variable legal situations.

If one be permitted to disregard the record and to construct his own factual basis, it would be simplicity itself to erect a legal structure that would be unassailable.

So, here, Petitioners have rather flagrantly departed from the record and have asserted that certain facts exist, which asserted facts are directly opposite to the record.

As a justification for this harsh statement and as but a single instance of many which we will hereafter specify, we direct the Court's attention to the following statement on Page 43 of Petitioner's Brief, which reads as follows:

> ". . . c. Letter dated May 4, 1936, written on the stationery of the San Francisco Underwriters addressed to J. D. Richards (Record, Page 138), which in substance points out that the insured has a right to cancel the policy if she wishes but that *IF* the policy was in effect between March 5, 1936, and May 2, 1936, and a loss occurred, the insured would look to them for payment and requesting Richard to send check for $30 in payment of the premium."

The Court will note particularly the capitalized and underscored word "if," the use of which perverts the entire meaning of the exhibit referred to

From Page 138 of the Transcript we quote the letter verbatim:

> . . . PLAINTIFF'S EXHIBIT NO. 4
>
> Q. "You have today returned for cancellation San Francisco Underwriters policy SU68893 issued to Mary Ann McElligott, covering $5,000

against loss by fire on the gasoline station and grocery store on Auburn Boulevard, Sacramento, California. Now, Mr. Richards, if this assured does not wish this insurance, it is her privilege, of course, to cancel; but the fact remains she has been covered from March 5, 1936, to May 5, 1936, and had a loss occurred in the meantime, she certainly would have looked to us for payment, and, as you have neglected to send with the policy your check for the earned premium of $30.00 which is due this company (122), we are stating that unless this amount is paid within the next fifteen days it will be transferred to our collection agency for collection. Kindly, therefore, give this important matter your immediate attention. Very truly yours, Clarence de Veuve, General Agent, by Edward Brooks, Cashier."

This mis-statement of a most material fact by Petitioners is illustrative of the situation that confronts us in replying to their argument. Nor does it stand alone.

CHRONOLOGICAL STATEMENT OF FACTS.

We believe therefore that the time of the Court will not be impinged upon by a sincere effort to state the material facts in chronological order, supported in every instance by the record:

1—Respondent Mary Ann McElligott was and is the owner of a parcel of realty, improved by a frame building, in which she conducted a modest wayside store, situated on the Lincoln Highway, near Sacramento, California. (Transcript, pp. 145-6.)

2—Respondent Ida Louise Tarleton on April 24, 1926, loaned Respondent Mary Ann McElligott $4000.00, payment of which was secured by a first deed of trust upon Respondent Mary Ann McElligott's property; the entire principal of this loan, and interest thereon from the 15th day of May, 1930, remains unpaid. (Tr. pp. 161-2-3.)

3—On August 27, 1935, Respondent McElligott, the owner, requested one W. V. McGlone, engaged in a general insurance business at Sacramento, to have her property insured and kept insured against loss by fire by placing $4000.00 on the building and $1000.00 on the contents. (Tr. pp. 95-6-7.) McGlone agreed to do so and advised her from time to time that he was keeping her property insured, as requested. McGlone was neither an agent, representative or employee of either insurance company, petitioners here, nor did he claim or represent himself to be such. (Tr. pp. 188, 189, 107, 98.)

4 — McGlone placed this insurance in several companies anterior to the issuance of the policy herein involved, which prior policies were cancelled for undesirability of risk, non-payment of premium, or other causes, none of which are material herein. (Tr. 105, 110.)

5—Early in March, 1936, McGlone requested one Harold Hobbs, a traveling representative of Lumberman's Underwriting Alliance, an insurance company which had declined to assume the risk here involved, to place it with some other insurance company in San Francisco — instructing him to

have a policy written for $5000.00, of which $1000.00 was to be on McElligott's stock in trade, and $4000.00 on the building and to have a mortgage clause attached with Respondent Tarleton as the Mortgagee. (Tr. p. 99.)

6—On March 5, 1936, Petitioners here, transacting business in California under the name of "San Francisco Underwriters," issued their policy insuring Respondent McElligott, Owner, against loss by fire for a term of three years, in an amount of $1000.00 on contents and $4000.00 on building, and attached to the policy a Mortgage Clause, providing, inter alia, that in the event of loss to the building, the insurance thereon ($4000.00) should be payable to Respondent Tarleton, the Mortgagee, as her interest might appear, and also containing the other usual clauses of a Mortgage Clause. (Tr. pp. 23-44: Verbatim Policy and Mortgage Clause.)

7—Petitioners issued the policy (Tr. pp. 30-44) with Mortgage Clause with full contribution thereto attached (Tr. pp. 21-29) and delivered it unconditionally and in the ordinary course of business to an Insurance Broker, J. D. Richards in San Francisco, who had requested it (Tr. pp. 215-216), and who delivered it unconditionally to a certain Ulvilla, an employee in the office of the Company by whom Hobbs was employed. (Tr. p. 216.) Ulvilla thereupon mailed the policy, unconditionally and unaccompanied by any statement, letter, condition or restriction, to McGlone, in Sacramento, who was Respondent McElligott's agent to procure insurance. (Tr. pp. 210-100.)

8—McGlone retained the policy in his possession for practically 60 days (Tr. p. 116), although he tried unsuccessfully to see McElligott, the insured, desiring to collect or arrange for payment of premium. (Tr. p. 113.)

9—On May 2, 1936, McGlone, without the consent or knowledge of or notice to McElligott, the insured, or Tarleton, the Mortgagee, returned the policy to Petitioners, stating, "Due to sickness in family, the assured cannot meet premium at this time." (Tr. p. 115.)

10—Neither McElligott, the owner, nor Tarleton, the Mortgagee, authorized or directed McGlone to return the policy to the Petitioners nor had either of them any knowledge that he had done so, until long after the fire occurred which destroyed the insured property. (Tr. pp. 169, 192, 195.)

11—On May 4, 1936, and before any fire or loss had occurred, Petitioners wrote Richards, the Broker, at whose request and to whom they had issued and delivered the policy, and who in turn had forwarded it, via Ulvilla, to McGlone, the agent of the owner, McElligott, as follows:

"You have today returned for cancellation San Francisco Underwriters policy SU68893, issued to Mary Ann McElligott, covering $5,000 against loss by fire on the gasoline station and grocery store on Auburn Boulevard, Sacramento, California. Now, Mr. Richards, if this assured does not wish this insurance, it is her privilege, of course, to cancel; but the fact remains she has been covered from

March 5, 1936, to May 5, 1936, and had a loss occurred in the meantime, she certainly would have looked to us for payment, and, as you have neglected to send with the policy your check for the earned premium of $30.00 which is due this company (122), we are stating that unless this amount is paid within the next fifteen days it will be transferred to our collection agency for collection. Kindly, therefore, give this important matter your immediate attention." (Tr. pp. 137-139.

12—No verbal or written notice of cancellation, either of the policy of insurance or of the Mortgage clause thereto attached was given by Petitioners or either of them, or by any person claiming to act for them, either to McElligott, the owner and insured, or Tarleton, the mortgagee, and neither owner or mortgagee authorized, assented to, ratified or approved any attempted cancellation; May 14, 1936, McElligott paid on account of premium to McGlone. (Tr. pp. 163, 129.)

13—May 21, 1936, a fire totally destroyed the building and contents, described in and covered by the policy. (Tr. p. 141.)

14—Petitioners were immediately notified by telephone by McGlone of fact of loss. (Tr. p. 141.)

15—May 22, 1936, Petitioners, after being informed of fact of fire and loss, wrote to McGlone, stating that "the policy had been returned and cancelled flat and that the company had no liability under the contract. (Tr. p. 177.)

16—Within 60 days following the loss, proof of loss was made and delivered to Petitioners. (Tr. p. 18.) Petitioners refused to pay all or any part of the loss and have not done so. (Tr. pp. 19, 48.)

17—February 17, 1937, action was commenced in the Superior Court of the State of California, in and for the County of Sacramento, by McElligott, the insured, and Tarleton, the mortgagee, properly united in the same action, to recover the full amount of the policy from Petitioners. (Tr. pp. 11-44.)

18—April 2, 1937, upon the sole ground of "diversity of citizenship," the cause was removed upon Petitioners' Motion from the State Courts to the United States District Court for the Northern District of California (Tr. pp. 2-10.)

19—December 12, 1938, et seq., a trial was had in the District Court of the United States (Tr. pp. 94-239) by the Court, sitting without a jury. The Trial Judge filed no opinion.

20—On the 27th of March, 1939, the Trial Judge signed Findings (Tr. pp. 62-69), having theretofore denied motions by Respondents to amend and correct the Findings and to make them accord with the facts and the evidence. (Tr. pp. 71-84.)

ANALYSIS OF ADMITTED FACTS.

The policy with mortgage clause attached was ordered from Petitioner Insurance Companies in the regular course of business (Tr. pp. 215-6), was drawn up and duly countersigned by their authorized General Agent, C. deVeuve (Tr. pp. 221, 32, 228), and delivered

to the Insurance Broker who had ordered it (Tr. p. 216), who in turn delivered it to Ulvilla (Tr. pp. 209, 216), who in turn mailed it to McGlone (Tr. p. 210), Respondent McElligott's agent, to procure the same. (Tr. p. 100.

The policy with mortgage clause, duly issued as stated, was forwarded through the United States Mail to McGlone, the owner's agent, who had ordered it, and no letter, special or unusual instructions re delivery or non-delivery accompanied it. (Tr. p. 136.)

The policy was issued, dated and became effective "from the fifth day of March, 1936, at noon, to the fifth day of March, 1939, at noon" (Tr. p. 30), and delivered to Insured, as before stated.

There is no conflict in these facts.

The Petitioning Insurance Companies did not choose to question any of the foregoing facts, even by the testimony of one Clarence DeVeuve, their General Agent, and the party who actually countersigned the Policy and the Mortgage Clause, and the party who signed the letter, dated May 4, 1936, stating that:

> ". . . but the fact remains *she has been covered* from March 5, 1936, . . . and as you have neglected to send with the policy your check for the earned premium of $30.00 which is due this Company. . . ."

and which Clarence De Veuve was present in Court at the trial. (Tr. p. 101.)

Notwithstanding these unquestioned facts, proven by any uncontradicted evidence, Counsel state to this Court:

"There is no question but that the proof conclusively showed that the policy sued upon did not, in fact, ever come into effect." (Brief, p. 11.)

We refrain from expression of any opinion on this palpable departure from the record and evident intent to mislead, and beg to assure this Court that such practice is not common, even in California.

* * *

The whole case of the Petitioners seems to revolve around that one mis-stated fact, namely that the policy never became effective.

PAYMENT OF PREMIUM ON A FIRE INSURANCE POLICY IS NOT A CONDITION PRECEDENT.

Petitioners urge the fact that the non-payment of the premium by the insured, McElligott, in and of itself precluded the policy from becoming effective.

We take it to be settled law that *unless the payment of the premium be made a condition precedent*, the operation of the policy is in no wise deferred.

A distinction must be borne in mind between the ordinary life insurance policy, wherein it is usually, if not invariably, stated that "In consideration of the payment of the premium, etc., the company insures . . . ," and the ordinary fire insurance policy where the language is, as in the instant case, "In consideration of the stipulations herein named, and of $.....premium, does insure . . ."

In the former, the payment of the premium is made expressly a condition precedent.

In the latter, and as is invariably the practice in all fire insurance contracts, the payment of the premium is not a condition precedent to the operation and effectiveness of the policy.

Fire insurance policies throughout the entire United States, and in fact the world, barring a few isolated parts, are more or less standard in form, and in the United States and the British possessions the payment or prepayment of the premium is not an essential condition to the effectiveness of the policy.

The very language of the policy—the contract—precludes such construction.

It is settled law in California, construing fire insurance policies of identical language, that the prepayment of the premium is not essential to the effectiveness of the policy:

". . . *Raulet v. Northwestern etc. Ins. Co.*, 157 Cal. 213, 222, 107 Pac. 292."

". . . *Farnun v Phoenix Insurance Co.*, 83 Cal. 246, 255, 23 Pac. 869.

"The policy in this case does not formally express receipt of premium, but it recites a consideration of $73.50 for the contract of insurance. . . ."

". . . The promise to pay the premium at a future time was a sufficient consideration for the contract to insure, as there can be no question that the promise to pay on a future day was binding on the plaintiffs, and could have been enforced by the defendants. . . ."

". . . *Sterling Fire Ins. Co. v. Comision Reguladora*, 143 N. E. 2, 6.

"Neither is the payment or tender of the premium a condition precedent to a recovery by appellee."

". . . *Couch on Insurance* §625, p. 2004."

The authorities cited by Petitioners in support of their contention that, there having been no payment of the premium upon the policy, therefore, and by reason thereof, the policy did not become effective, are cases involving life insurance policies, where it is the common practice to expressly provide in the policy itself, that the policy shall not become effective until the premium is paid.

(Tr. *Equitable Life Insurance Society v. McElroy*, 83 F. Rep. 631, 49 U. S. App. 548, 28 C. C. A. 365;

Union Central Life Insurance Company v. Pauloy, 8 Ind. App. 85, 35 N. E. Rep. 190.)

In both of these cases the policy expressly stated that

"In consideration of the annual payment in advance of a premium of $.....the Company does insure."

Obviously, a contract of insurance, be it life, fire, accident or automobile or any other kind which an insurance carrier may choose to write, which expressly provides that it is issued in consideration of the payment in advance of a certain stipulated premium, does not become effective until such stated premium has been paid or authorized and acceptable credit given.

ANALYSIS OF CONTENTIONS BY PETITIONERS FOR REVIEW

Presumably, to bring themselves within the purview of rule 38, subsections 2 and 5, of this Court, Petitioners specify a series of "Points" so-called and which they urge as sufficient reasons for the exercise of this Court's jurisdiction to review the Decision of the Circuit Court, reversing the judgment of the District Court.

Addressing ourselves, seriatim, as best we may, due to the overlapping and commingling of the "Points," so called, by Petitioners, it is at once obvious from a mere reading or narration of the reasons assigned that, in truth and in fact, no single special or important reason exists to justify the exercise by this Court of its discretion to grant a review on certiorari of the decision of the Circuit Court herein.

FIRSTLY

Petitioners invoke rule 32 of the Rules of Civil Procedure for the District Courts and assert that the Circuit Court erred in reversing the judgment of the District Court in holding that the findings of the District Court to the effect that the policy involved, "was never delivered to or accepted by" Respondents (Tr. p. 69), and,

> ". . . that the policy of fire insurance sued upon in this action was not in force or in effect on May

> 21, 1936, the date of the fire loss alleged in plaintiffs' complaint; that at no time was a contract for fire insurance entered into or executed by and between these plaintiffs, or either of them, on the one hand, and these defendants, or either of them, on the other." (Tr. p. 69.)

had no support in the evidence and that such findings by the District Court were contrary to the undisputed evidence in the case.

A mere re-statement of Petitioners' contention would seem to carry its own refutation.

If a Circuit Court upon appeal from a judgment of a District Court, in a case where the complete record, pleadings, evidence, rulings, etc., were used, has not the jurisdiction to reverse a judgment predicated upon findings having no support in the record, and, in fact, directly contrary to undisputed evidence, of what utility, as a revisory or reviewing tribunal, would a Circuit Court be?

In the instant case, the findings of the District Court, as pointed out and held by the Circuit Court, in its decision (Tr. pp. 266-272) found no support in the evidence, and were contrary to the evidence, and, therefore, the Circuit Court reversed the District Court's judgment.

It hardly seems justifiable for us to even engage this Court's attention in responding to Petitioners' weird

contention that rule 52 of the District Courts controls the Circuit Courts and, even this Court, in forbidding, on review upon appeal any reversal of a District Court's judgment, where its findings and judgment are not merely unsupported by any material evidence, but, as here, directly contrary to the undisputed record and the evidence.

The facility of a trial judge, indeed, his unquestioned right, to pass upon the credibility of witnesses who pass before him, does not, as Petitioners contend, supply that sine qua non of all contested cases, material and substantial evidence to support issues presented and found.

SECONDLY

Petitioners, in their "Point B" (Brief p. 33), with more brevity than accuracy, and, certainly, with more dearth of supporting authority, totally disregard the record, which was before the Circuit Court, and would trim from consideration by the Circuit Court, the very substance of facts and law which were presented to that Court, briefed and argued before it, considered and determined by it.

The opinion of the Circuit Court (Tr. pp. 256-281), with its considered, orderly and supported analysis and review of the evidence adduced before the District Court and of the findings of that Court, so at variance with such undisputed evidence, would seem to be the only response we need or should make to this Court.

As in support of their contention that the decision of the Circuit Court was in conflict with the decisions of their own (the Ninth Circuit) Court, Petitioners cite (Brief p. 35).

Anglo-California Nat. Bank v. Lazard, 106F (2nd) 693.

A mere reading of this decision will make clear that the Court followed the historic rule, that where there is substantial conflicting evidence, the finding of the trial court will not be disturbed.

Such is not the condition presented here. There was no evidence to sustain the trial court's finding. It is not a question of dispute in evidence, where the trial court might believe one witness or disbelieve him. There was no witness, no evidence, to sustain the trial court's findings; hence, the Circuit Court did what all Circuit Courts have done from their earliest establishment, they reversed the judgment.

Another authority cited by Petitioners is:

Occidental Life Ins. Co. v. Thomas, 107 Fed (2nd) 876.

The Court here merely stated the time-worn rule, that "the trial court's findings are not to be disturbed unless they are clearly erroneous. We are satisfied that the proof is sufficient to support the finding. . . ."

No one questions this most ancient rule.

Petitioners' citations from the several other Circuit Courts are all addressed to the same contention—a contention which, if applicable, no one would deny.

It would seem, therefore, that no benefit could accrue from the devotion of any more attention to these authorities.

Petitioners have simply misconceived the factual situation and upon such misconception have addressed many authorities to this Court, which have no relevancy to the instant case.

Petitioners in their "Point D" (Brief p. 40) suggest that the Circuit Court in its decision failed to observe the rule enunciated in:

> "*Erie v. Tompkins*, 304 U. S. 64, and
> 82 L. Ed. 1188,
> 58 Sup. Ct. 817.
>
> *Cities Service Oil Co. v. Dunlap*, 308 U. S. 208."
> 84 L. Ed. 196,
> 60 Sup. Ct. 201.

in that it did not apply the law of the State of California as regards the burden of proof and presumptions.

This point is mentioned for the first time in this Court.

Petitioners made no reference to it in either the Trial Court or the Circuit Court of Appeals.

In substance, however, while the rule in California, as to the burden of proof, is the same as it is in every state, in that each party must prove his own affirmative allegations, this does not mean but what properly admissible evidence may come from the opposite side. Every trial attorney knows that it does.

Petitioners' discourse upon "the preponderance of evidence" leaves us in a haze as to what they really mean.

There has been no occasion at any stage of the proceedings to weigh the evidence, since there was no conflict.

The Preponderance of Evidence rule can only apply when there is some evidence to be placed on both sides of the scales; otherwise the evidence is not only preponderant, but as in the instant case, is wholly undisputed.

Petitioners (Brief pp. 42-43) refer to letters offered and received in evidence. The Court will note that the letter of Petitioners, dated May 4, 1936, in which Petitioners refer to the fact that the policy had been in effect and make a preemptory demand for a short rate premium, was written ante litem motam.

Whereas, the letter of Petitioners, written May 22, 1936, in which the Petitioners state that the policy had been cancelled "flat" (meaning no premium charged) was written post litem motam.

The antagonistic positions taken by Petitioners in these two letters is obvious and can only be explained by a common frailty of human nature, a frailty which is not excusable in reputable business organizations.

Petitioners' entire brief is permeated with not entirely accurate conceptions of the law of insurance.

For example, Petitioners state (Brief p. 50):

> "Whether or not the policy was in effect or not depends upon the delivery of the policy."

Of course, this is not the rule in California or any other state. Contracts of fire insurance may even rest in parole and ordinary country agents of fire insurance companies frequently bind their principals by verbal contracts of insurance.

Harrigan v. Home Life Ins. Co., 128 Cal. 531, 546.

> "It (delivery) is, therefore, a matter solely of intention. If it was intended that document should be in force before it was actually handed over, it will be deemed constructively delivered. . . ."

> "In Bliss on Life Insurance, section 150, it is said 'If the company so far accepts the application as to prepare and forward a policy to its agent for delivery, and if payment of the premium has been made, or if such payment is not a condition of the policy's taking effect, or, being a condition, is waived, the contract is then complete, and the company cannot revoke its acceptance, though the policy had not been delivered.'"

"To the same effect is I May on Insurance, 97; I Beach on Insurance, sec. 482; Richards on Insurance, 54; Elliott on Insurance, sec. 14; I Wood on Insurance, 49; Ford v. Buckeye etc. Ins. Co., 6 Bush 133; 99 Am. Dec. 671, note."

"It is concluded that the delivery is complete when sent to the local agent to be unconditionally delivered, and, though it was lost on the way, it was nevertheless the property of the insured."

1 *Couch on Insurance* §125, p. 231.

"As a general rule, the deposit of a policy in the mails, properly stamped and addressed to the Insured, is a delivery to him. . . ."

"And as mailing direct to the insured has been held in effect a delivery, so mailing a policy to the insured's broker, who procured the insurance, constitutes delivery to the insured. . . ."

". . . In the absence of some such known or obvious restriction or incompleteness, the insured's possession of a policy creates a presumption of proper delivery after performance of all conditions precedent."

Khan v. Royal Indemnity Co., 39 Cal. App. 183.

"As to the claim that the policy was never delivered to the insured, and that because of the fact Plaintiff should not be bound by the statements contained in the application attached thereto, it is sufficient to say that the policy was delivered to one Seigel, who had procured the policy at the

instance and request, and as the broker, of deceased. The possession of the policy by his broker was as effectual as possession by the insured."

Sterling Fire Ins. Co. v. Comision Reguladora,
143 N. E. 2, 6

"A contract of insurance is complete when the contract is executed by the insurer or its authorized agent with the intention to be bound, even though the policy or contract remains in the possession of the insurance agent for the purpose of being delivered to the insured, and, if the insurance agent is also an agent of the insured to keep the property covered, a substituted contract of insurance is complete without being actually delivered to the insured. Dibble v. Northern Assur. Co., supra; Hamm Realty Co. v. New Hampshire, etc., Co., supra; 26 Corpus Juris, p. 58, and cases cited."

THE CIRCUIT COURT OF APPEALS LITERALLY AND ACCURATELY APPLIED THE LAW IN CALIFORNIA TO THE FACTS IN THE INSTANT CASE.

In conformity with established procedure, as enunciated by this Court in:

Erie Railroad Co. v. Tompkins,
304 U. S. 64,
82 L. Ed. 1188,
58 Sup. Ct. 787;

Cities Service Oil Co. v. Dunlap,
308 U. S. 208,
84 L. Ed. 196,
60 Sup. Ct. 201;

the Circuit Court in its decision strictly and accurately applied the law of the State of California, as declared by its Supreme Court, its highest Court.

The question passed upon was, assuming that a policy of fire insurance, with a standard mortgage clause attached had been issued and delivered and had become effective, could there be a cancellation of such policy and mortgage clause simply by the physical return of the policy to the Insurers by one who had no authority from either the insured or the mortgagee and where the modes of cancellation, expressly set forth in the policy and mortgage clause, were not followed.

Petitioners assert the contrary (Brief p. 65), and cite as controlling:

Ferrar v. Western Assur. Co.,
30 Cal. App. 489,
159 Pac., 611.

It must be borne in mind at all times that this action involves two separate and independent contracts—the Policy, with Respondent McElligott as the owner and Insured, and the Mortgage Clause with Respondent Tarleton as the Mortgagee.

Each of these contracts contains wholly separate and distinct methods by which the liability of the Insurers might be terminated or cancelled.

Supra, we set forth these separate methods.

CANCELLATION AS TO RESPONDENT McELLIGOTT

McGlone was McElligott's agent *"to insure and keep insured her property."*

The testimony, and the only testimony as to McGlone's authority from McElligott, is as follows:

Testimony of Mary Ann McElligott:

> "A. Well, I don't know if it was or not. I paid him $60.00 all together, and he said he was keeping my insurance covered. . . ." (Tr. 188.)
>
> "A. Yes, right along he (McGlone) told me he was keeping my—my property covered. . ." (Tr. 189.)
>
> "A. He (McGlone) told me he would keep me covered, but I don't know whether it was in reference to that conversation, but he told me he would keep me covered.
>
> Q. And it was satisfactory to you if he kept you covered with insurance, no matter what company your insurance was placed in, is that a fact?
>
> A. Yes, if he kept me covered." (Tr. 105.)
>
> "A. Well, I might be stupid, Mr. Murphy, but I don't understand. All I know is I paid Mr. McGlone and he told me that he would deliver the policy to Mr. Richards, Mrs. Tarleton's attorney." (Tr. 201.)

We stress this matter of McGlone's authority from McElligott, because an agency "to insure and keep insured" is vastly different from an agency merely to insure.

This is important, only so far as McElligott, the owner, is concerned, and does not affect the Insurer's liability to the Mortgagee, Tarleton.

> *Lauman v. Springfield Fire Ins. Co.*, 184 Cal. 650, 652, 195 Pac. 50,

would seem to answer our contention that where an "agency to insure and keep insured" exists, as here, the agent has no authority *to cancel and leave the property uninsured.*

> "But the authority to keep the property insured would not be authority to consent to a cancellation of insurance which would leave the property wholly without insurance. In this case the effect of the agreement to cancel the insurance was to leave the mortgage without any protection. . . ."

The case of

> *Ferrar v. Western Assur. Co.*, 30 Cal. App. 489, 159 Pac. 609:

cited by Petitioners is clearly distinguishable, in that in holding that

> "a general agent with power to insure property and keep it insured may accept notice of cancella-

> tion and procure substituted insurance or renewal of insurance in another company. . . ."

the agent replaced the cancelled insurance policy with other coverage and at all times kept the owner's property insured.

Not so, in the instant case.

If McGlone, as the agent of McElligott, "to insure and keep insured her property" had cancelled the instant policy and had replaced it with other coverage, there would and could be no question about his authority so to do.

But, having no authority to cancel without replacement, his attempted cancellation of the policy was futile, so far as McElligott is concerned.

Also, in the *Ferrar* case, the additional element of ratification was present.

This distinction is made in *Lauman v. Springfield Fire Ins. Co.*, infra, a later case.

The most recent judicial enunciation in California is found in

> *Emery v. Pacific Emp. Ins. Co.*, 67 P. (2d) 1046, 1051, 8 Cal. (2d) 663,

where, *inter alia*, the Court states:

"It is true that Exhibit G was not addressed to the insured, but to Strother & Strother, brokers, who had procured the insurance for Bronis. It is held that an agent of the insured to procure insurance is not an agent for cancellation, and notice of cancellation to such broker is not notice to the insured. Farnum v. Phoenix Ins. Co., 83 Cal. 246, 256, 23 P. 869, 17 Am. St. Rep. 233; Quong Tue Sing v. Anglo-Nevada Assur. Corp., 86 Cal. 566, 25 P. 58, 10 L. R. A. 144; Croenwett v. Iowa Underwriters of Dubuque Fire & Marine Ins. Co., 44 Cal. App. 571, 575, 186 P. 842; Hooker v. American Indemnity Co., 12 Cal App. (2d) 116, 54 P. (2d) 1128; Richards, Law of Ins. (4th Ed.) §271, p. 450."

We, therefore, believe that as to McElligott, the owner, the return of the Policy to the Insurers by McGlone, her agent "to insure and keep insured" her property, did not operate as a cancellation or termination of the Policy, and, that the risk assumed by Insurers continued and was existent at the time of the fire loss.

CANCELLATION AS TO RESPONDENT TARLETON, THE MORTGAGEE.

Whether the Policy was cancelled or not in nowise affects the liability of Petitioners to Tarleton, the Mortgagee.

Admittedly, the Mortgage Clause was executed, at the request of the owner, McElligott, by Petitioners, contemporaneously with the execution of the Policy (Tr. 21-29).

When the Petitioners executed this Mortgage Clause and attached it to the Policy and delivered it unconditionally to the broker Richards, and via mesne persons forwarded it to McGlone, McElligott's agent "to insure and keep insured" her property, the Mortgage Clause, of course, became an operating contract of indemnity between Petitioners and Tarleton.

Its terms were clear and definite.

It plainly and expressly provided that "no act or neglect" on the part of the Insured would invalidate it.

If the Insured, McElligott, could not by express contractual language invalidate this Mortgage Clause, how could McGlone be held to have the power to do so?

THE FACT THAT THE MORTGAGEE HAS NO KNOWLEDGE OF THE POLICY O RMORTGAGE CLAUSE UNTIL AFTER THE LOSS, IS WHOLLY IMMATERIAL

> "Nor is acceptance by a mortgagee essential to the completion of a contract evidenced by a Standard Mortgage Clause in a fire insurance policy, for *a Standard Mortgage Clause is valid and enforceable although the mortgagee had no knowledge of the existence of the policy until after the loss*" (citing authorities).
>
> 5 *Couch on Insurance*, §1215, p. 4424.

In the case at bar, Tarleton, mortgagee, was temporarily out of the State during the time that the events

herein, appertaining to the issuance of the Policy and Mortgage Clause here sued upon and loss thereunder, transpired.

Admittedly, she had no knowledge of the execution of the Mortgage Clause in her favor until some six weeks after the loss.

Admittedly, no notice of any cancellation of the Policy or of the Mortgage Clause was given or attempted to be given by Insured or any one else to her.

It is evident from the record—the testimony is uncontradicted — that under the terms of the Deed of Trust, executed by the owner of the property, McElligott to Tarleton, Mortgagee, that the obligation to insure the interest of the Mortgagee rested upon McElligott by the express language of the Deed of Trust (Appellants' Exhibit 6) (Tr. 147).

McElligott performed her obligation to Tarleton in this respect (Tr. 201).

Union Institution for Savings v. Phoenix Ins. Co., 81 N. E. 994, 196 Mass. 230, 14 L. R. A. (N. S.) 459:

"The mortgage contained a covenant that the mortgagor should keep the property insured for the benefit of the mortgagee The mortgagor, one Surbridge, procured the policy, but did not inform the plaintiff of it, and the plaintiff had no knowledge of it until after the fire.

It is *also immaterial that the plaintiff, at the time of the fire, had not been informed of the action taken by the morgagor for its benefit, under its authority.*"

In

Gilman v. Commonwealth Ins. Co., 92 Atl. 721, 112 Me. 528, 1915C L. R. A. 758,

is found a set of circumstances quite similar to those in the instant case, in that the Mortgagee had no knowledge of the issuance of the Policy and Standard Mortgage Clause until after the loss, and, in addiion, the Insured had prior to loss requested cancellation, but no notice thereof was conveyed to the Mortgagee: the Court held the Insurer bound to the Mortgagee.

Similarly, in

Eddy v. London Assur. Corp., 143 N. Y. 311, 25 L. R. A. 686,

it was held that additional insurance taken out by the mortgagor, or owner, without the consent or knowledge of the mortgagee, could in no wise affect an existing and valid policy with a standard Mortgage Clause attached.

ACCEPTANCE OF THE POLICY WAS NOT REQUIRED BY THE MORTGAGEE TARLETON TO COMPLETE THE CONTRACT.

Federal Land Bank v. Atlas Assur. Co., 125 S. E. 631, 634, 188 N. C. 747:

"The Atlas Company also takes the position that, as Federal Land Bank of Columbia had no knowledge of the existence of the policy issued by it until after the buildings had been destroyed by fire (eighth issue above), the same may not now, after a loss has occurred, be accepted and ratified by the said beneficiary under the standard mortgage clause attached thereto."

"The contract of insurance was procured by C. C. Greenwood, who had an insurable interest in the property at the time, and who had a right to enter into the contract. The policy was issued with a rider, or standard mortgage clause, attached thereto, in which the Federal Land Bank of Columbia, as mortgagee or trustee, was named as the first beneficiary as its interest might appear."

"*Nor did it require an acceptance on the part of the mortgages or trustees to complete the contract.* It was made by competent parties for their benefit, as their interests might appear, and it was expressly agreed by the Atlas Company that 'this insurance, as to the interest of the mortgagee, or trustee, only, herein, shall not be invalidated by any act or neglect of the mortgagor or owner of the within described property'"

THE MORTGAGE CLAUSE WAS NEITHER CANCELLED NOR ATTEMPTED TO BE CANCELLED.

Petitioners concede that Appellant Tarleton, the Mortgagee, "knew nothing of the Policy until after the fire loss" and "she had no knowledge of its existence" and "that no demand for premium or notice thereof was given to her (Tarleton)."

If the action of McGlone, as McElligott's agent "to insure and keep insured" her property, in returning the Policy with the Mortgage Clause attached to Respondents with request that it be cancelled, be held to have been within the scope of his agency, which we believe authority holds definitely not to have been so, and, if sequentially, it should be held that the Policy insuring McElligott was cancelled, or whether it be held that McGlone's action, so far as McElligott, his principal, was concerned, was wholly *ultra* his power and authority, *in either event*, the *Mortgage Clause was not cancelled, and continued in force* and afforded Tarleton indemnity against loss by fire.

There is an absolute unanimity of authority that the rights of the Mortgagee under a Standard Mortgage Clause, as here used, *cannot be vitiated, cancelled or terminated, without notice to the mortgagee*, save by expiration of the expressed term of the coverage.

Succinctly, this rule is stated in

6 *Couch on Insurance*, §1439, p. 5093:

"Notice to the Mortgagee is a prerequisite to cancellation under a standard policy containing a mortgage clause."

Gilman v. Commonwealth Ins. Co., 112 Me. 528, 92 Atl. 721;

Lauman v. Springfield Fire Ins. Co., 184 Cal. 650, 195 Pac. 50.

In the *Lauman* case, there was a Mortgage Clause attached to the Policy, identical with the one here involved, save as to parties and amounts.

The Court, speaking through Justice Wilbur, says:

"No notice whatever was given to the mortgagee." "The notice given to the Mortgagor was not communicated to the Mortgagee, and was in no sense notice to the mortgagee. The conclusion of the trial court that the plaintiff Dodd was not notified of the cancellation of the policy as required by its terms is justified by the evidence. The policy of insurance was therefore in force at the time of the fire and the judgment of the superior court to that effect was correct."

Rawl v. American Cent. Ins. Co. (S. C.), 77 S. E. 1013, 45 L. R. A. (N. S.) 463, see note;

Federal Land Bank v Atlas Assur. Co., 125 S. E. 631, 635 (N. C.).

It requires something besides an utter lack of comprehension of the refinement of settled insurance law, to fly thusly, as Petitioners do, in the face of a very clearly expressed covenant in the Mortgage Clause, prescribing the method and mode of cancellation of the mortgagees' rights thereunder, but, also, to hurl themselves against that other potent provision in the Mortgage Clause that *"the interest of the mortgagee only herein shall not be invalidated by any act or neglect of the mortgagor or owner. . . ."*

These clauses, it is to be remembered, were placed in the Mortgage Clause by the Insurers.

To ignore them, by any ingenious device of language, or an appeal to pathos, is scarcely becoming the foundation stone upon whose sanctity it is well said, civilization itself does rest.

We repeat that these pleas of Petitioners to escape liability to the Mortgagee, Tarleton, upon their solemnly executed contract are not addressed to mere credulity, but are insultive of rational and ordered thinking.

As sustaining our views, many of the authorities herein cited, overlap and pass directly upon the position we have stated that the Mortgagee, Tarleton, assumes.

Union Trust Co. v. Philadelphia Fire & Marine Ins. Co., 145 Atl. 243, 247 (Me.).

"There may also be said to be practical unanimity in the authorities that under such 'union mortgage clause' no act or default by the mortgagor or owner after the inception of the policy, if unknown to the mortgagee, though invalidating the policy as to the mortgagor or owner, will invalidate the contract of insurance between the mortgagee and the insurer, as will appear in the cases above cited."

"A strong preponderance of authority, however, is in favor of holding that any acts or neglect of the mortgagor or owner whether prior or subsequent to the inception of the policy, will not invalidate the rights of the mortgagee under a 'union mortgage clause.'"

Walker v. Queen Ins. Co., 136 S. C. 144, 134 S. E. 263, 52 A. L. R. 259.

Germania Fire Ins. Co. v. Bally (Ariz.), 173 Pac. 1052, 1 A. L. R. 488, 492.

"... The insurance clause attached to the policy in terms provides that the policy shall not be invalidated as to the mortgagee's interest by reason of any act or neglect of the mortgagor or owner, and, according to the majority of the authorities, this affords protection against previous acts as well as subsequent acts of the insured. As is well known, many insurance policies are issued, primarily, to protect mortgages. In fact, it is made a condition of the mortgage, as in this case, that the insurance shall be carried by the owner of the property to protect the interests of the mortgagee. This exaction by the mortgagee is well known to the insur-

ance companies, and they are only too glad to take this risk. The insurer issues the policy to the mortgagor. It is a contract between the mortgagor and the insurance company. The mortgagee is not interested after its execution, when the mortgage clause is attached to the policy for his protection. We think the mortgagee, when a policy is presented to him with a standard mortgage clause attached thereto in his favor, is justified in assuming that the insurance company has satisfied itself that the policy is valid and free from impeachment for any conduct or act of the assured at its inception, or prior to the attachment of the mortgage clause. The authorities are not agreed on this proposition, but we think the better reason is with those that hold the rights of the mortgagee are unaffected by any act or neglect of the insured, as well before the attachment of the mortgage clause as afterward."

* * *

Without conflict, the evidence showed, as is demonstrable from an examination — even a most cursory examination — of the Record,

(1) That the Policy, with the Mortgage Clause attached, was issued at the request of the Insured, McElligot, through her Agent, McGlone (Tr. 111).

(2) That the Policy, with the Mortgage Clause attached, was executed and delivered unconditionally and with no restrictions, first and directly to the broker, Richards, who ordered it (Tr. 215, 216),

and thence to Ulvilla, and, via mail from Ulvilla to McGlone (Tr. 224, 225); McGlone received it "without any special instructions or directions" or conditions accompanying it (Tr. 111, 136). It was executed and delivered in the ordinary course of business and precisely as thousands of other fire insurance policies are issued and delivered daily: Petitioner's letter of May 4, 1936 (Exhibit 4), expressly admits execution, delivery and effectiveness of policy;

(3) That McGlone was the agent only of the owner, McElligott, and his authority was "to insure and keep insured" her property, and his attempt to surrender for cancellation the Policy, without replacement of the risk, was beyond any authority he possessed, and, hence, the Policy could not have been legally cancelled as to McElligott; no notice of cancellation was given by the Insurer to McElligott;

(4) That by virtue of the express terms of the mortgage clause, nothing which the Insured McElligott, or her agent, McGlone, did or could have done, invalidated or affected or destroyed the insurance upon the interest of the mortgagee, Tarleton;

(5) That it is wholly immaterial that the Mortgagee Tarleton did not learn of the Policy or more particularly of the Mortgage Clause, until after the fire loss;

(6) That the Petitioners neither gave, nor attempted to give, to Mortgagee Tarleton, any notice of cancellation of the Policy or Mortgage Clause, or even of any desire to retire from the risk; they demanded the earned premium before they learned of the loss, and then politely, but not for reasons of politeness, waived the same after learning of the loss.

McElligott based her claim upon the Policy and that it was not terminated by any unauthorized act of McGlone, and was in force at the time of the fire;

As to the Mortgagee, Tarleton, the Record discloses — without contradiction — that the Mortgage Clause attached to the Policy was a legal, binding obligation executed by the Insurers, in full vitality at the time of the fire.

THE LAW OF THE STATE OF CALIFORNIA.

In the Circuit Court, as here, Petitioners urged that the law of the State of California, applicable to cancellation of fire insurance policies, was as set forth in:

Ferrar v. Western Assurance Co.,
30 Cal. App. 489,
159 Pac. 609; and

Stevenson v. Southern Insurance Office,
17 Cal. App. 280,
119 Pac. 529.

Both of these cases were decided by District Courts of Appeal, which are not courts of last resort in California.

Both of these cases were later considered, analyzed and distinguished by the Supreme Court of California, and the law declared to be as we have contended it to be, both in District and Circuit Courts, and here, in

Lauman v. Springfield Fire Ins. Co.,
184 Cal. 650,
195 Pac. 50,

to the extent, if any, that Ferrar v. Western Assurance Co. conflicted with the rule here contended, it necessarily was overruled.

It would seem supererogatory for us to attempt to respond further to the contention of Petitioners, that the Circuit Court did not follow the established and prevailing rules of law in California, in view of the elaborate and studied opinion of the Circuit Court, which considered every California case pertinent to the question—and more—and so lucidly pointed out what the Supreme Court of that State had declared the law to be.

Succinctly, said Circuit Judge Garrecht, in responding to Petitioners' contention, there made, as here, that the California law was found in Ferrar v. Western Insurance Co.:

"If there were no other cases from California to guide us than Stevenson v. Sun Insurance Office, 17 Cal. App. 280, and Ferrar v. Western Assurance Co., 30 Cal. App. 489, we might feel an obligation to sustain ap-

pellees' position as to the effect of the attempted cancellation on Mrs. McElligott's claim. However, these cases have been distinguished by the California courts. Thus, in the case of Lauman v. Springfield Fire etc. Ins. Co., 184 Cal. 650, 652, the court said:

> "... It is held in *Ferrar v. Western Ins. Co.*, 30 Cal. App. 489 (149 Pac. 609), ... that where a broker or agent is employed to keep the property insured, he had the authority to cancel as well as to procure insurance. But the authority to keep the property insured would not be authority to consent to a cancellation of insurance which would leave the property wholly without insurance."

In the case at bar, if there had been a cancellation, the property would have been wholly without insurance. It seems now to be well settled by the California decisions that an agent of the insured to procure insurance is not an agent for cancellation, that in order to defeat an action upon a policy of insurance on the ground that the policy was cancelled, it must be shown either that the conditions upon which the company was allowed to cancel the policy were strictly complied with or that the insured, knowing all the facts, waived such compliance. (Quong Tue Sing v. Assurance Corp., 86 Cal. 566; Emery v. Pacific Employers Ins. Co., 8 Cal. 2d 663; Hooker v. American Indemnity Co., 12 Cal App. 2d 116.)

The policy here having been in effect and the agent being without authority to cancel it, the company was

required, before the policy could be cancelled, to comply with the terms of the policy and give notice. It is admitted that this was not done. It follows that the policy was in effect at the time of he fire, and appellant McElligott is entitled to recover as her interest may appear."

Petitioners' effort to escape the ruling of California's Court of dernier resort, as enunciated in

Lauman v. Springfield Fire Ins. Co., infra

by characterizing that decision as "dictum" (Brief p. 69) manifests either a crudity in interpretative ability or, what is wholly unconceivable, the naive belief that this Court would accept such a characterization of a pivotal case, rather than examine it itself.

* * *

IN CONCLUSION, IT IS SUBMITTED.

That there exists no basis for a review of the decision of the Circuit Court in the instant case—

For the reasons:

(A) No Federal question or question of any special public interest is involved.

(B) That the judgment of the Circuit Court scrupulously followed the law of the State of California on all matters germane or relevant to the issues involved.

(C) That the decision of the Circuit Court does not conflict, as contended by Petitioners here, either, with prior decisions of the same Circuit Court nor with the decisions of other Circuit Courts, nor with any decision of this Court.

It is respectfully submitted that the Petition for review upon Writ of Certiorari be denied.

Dated, Sacramento, California,
February 5, 1941.

JAMES D. MEREDITH,
Attorney for Respondents.